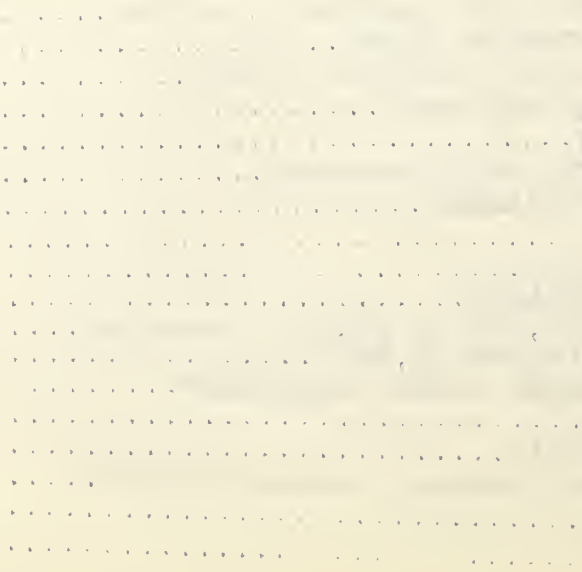

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THESIS

UNITED STATES AND CANADIAN TRADE RELATIONSHIPS AND THE SIGNIFICANCE OF THE 1935 RECIPROCITY

by

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CHAPTER I

INTRODUCTION

As a Canadian living in the United States the writer finds that many people of these two great nations entertain some very fallacious ideas about each other and about the relative effects of high tariff and free trade policies upon the economic good of their individual nations.

This thesis will attempt to throw some light upon what these two nations have meant to one another in the past and what they should mean to one another in the future, and will attempt to prove that free trade policies have been, and will be, much more beneficial to both countries than high protectionist policies and that the objections of "special interests" to freer trade are usually groundless. However, the unique relationship of the two countries should be carefully noted and the advantages and disadvantages of freer trade herein drawn should be considerably modified before applying them to the trade relations of any other nations.

In discussing the relationship between the

United States and Canada and in proving the comparative advantage of freer trade, a rather detailed history of the trade treaties between the two countries from 1854 to 1935 will be given showing the effects of the more important of these on the exports and imports of both countries, and a detailed study of the 1935 Reciprocity Act will be made. In this latter study the chief concessions made by both countries will be examined in the light of past experiences and probable results on the two nations in general, on "special interests" in both countries, and on particular localities. Statements made by leading politicians, industrialists, agriculturists, and newspaper men will be quoted either in detailed or summary from to substantiate all arguments. Before taking up the history and the 1935 Reciprocity Act, however, a study of the various types of tariffs in the United States, Canada, and some important countries in Europe will be made in order to clarify the subsequent discussion.

Finally, conclusions as to the benefits to both countries of the 1935 Reciprocity Act and of freer trade policies in general will be drawn.

Significance of the two Nations to one Another.

The following article by Stephen Cartwright, published in the New York Times Magazine on January

5, 1936, portrays most graphically the similarities of and the differences between Canadians and Americans, and affords an excellent picture in general of the unique relationship of the two nations with one another and of that of Canada with Great Britain:

[1] "The reciprocal trade agreement between the United States and Canada which went into effect last January represents a logical step in the unique relationship of the two countries. Despite many high-flown sentimentalities Canadian-American friendship has been characterized to a remarkable degree by the virtue of common sense. Yet Canada, in her relations with the United States, puzzles the world with three paradoxes.

"The two countries share 4,000 miles of frontier; in Europe that alone would be enough to start half a dozen wars. Yet the relations between Canada and the United States have been, and are, pre-eminently peaceful.

"Then there is the second paradox. Territorially, Canada is actually larger than the United States. She has a similar geography, similar natural resources, a climate which is much the same

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1. Hands, and Paradox, Across the Border, by Stephen Cartwright, New York Times Magazine, Jan. 5, 1936.

as that in the most populous sections of the country to the south. Yet the Dominion has a population just about one-twelfth the size of that of the United States, with all the implications which this fact carries for her industrial structure - her transportation system, her national wealth, in fact her whole social organization.

"The third paradox is this: no two countries in the world live on more intimate terms than Canada and the United States. Yet, not only has there been no likelihood of political union between the two nations, but Canada has developed a strong sense of her own independence and, in addition, has maintained a purely voluntary association with Great Britain.

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"What does Canada mean to the average American? Perhaps a drive so many miles north into a land of pleasant, hard-working, respectable citizens, not so very different from Americans.

"Other pictures are more vivid, if sometimes less intimate: Royal Northwest Mounted Police who 'Get their man' across sub-Arctic wastes; a pre-repeal haven for those who coveted the flowing bowl but could not enjoy it at home; an occasional broken-down English nobleman 'making good in the

colonies'; French-Canadians with their peculiar version of the French language; ice hockey, the Dionne quintuplets, and gold mines; Mr. Aberhart and $25 a month for everybody; and, of course, the 4,000 miles of unguarded frontier and the 100 years of peace, the inevitable peroration of after-dinner speakers.

"There is, however, a deeper and more concrete significance which Canada possesses for Americans. That is trade. A long list of commodities are now passing more freely across the border. The walls which were built to a forbidding height during the depression have crumbled.

"No international conference is complete without some passing comment on the fact that, for some unaccountable reason, the dove of peace has come home to roost along the forty-ninth parallel, if in no other part of the world.

"The explanation, however, is the simple one that the Canadian-American frontier is undefended because it would be futile and even impossible to defend it. Canadians and Americans have sought to settle their differences by other methods, of which the International Joint Commission is an excellent example.

"Between the two nations there have inevitably been sources of friction, misunderstandings and mutual ignorance. The War of 1812 left a

deep scar. Later, Canadians thought they got a raw deal over Alaska. In the Canadian election of 1911 the reciprocity issue was the excuse for a political cat-and-dog fight, in which anti-American sentiment was exploited to the limit. The 'Who won the war?' controversy stirred up bitter feelings, as did the war-debt issue. There have been boundary disputes and border incidents.

"But when Canadians and Americans squabble they can do so with the impunity of members of a family, as Andre Siegfried has observed.

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"The reasons for this are apparent. The two neighbors share a common language, a common frontier, similar geography. They have the same background of the non-conformist settler, the 'rugged individualism' of the pioneer. They have both fought for democratic rights.

"Canadians are inundated by American magazines, see American movies, tune in on American radio programs. Estimates of the number of people who chase business or pleasure across the border each year range from 25,000,000 to 30,000,000.

"More American goods are bought by Canada than by any other single nation. Canadian industrial

technique is essentially American. The majority of Canadian trade unions have American affiliations. The United States has a stake of approximately four billion dollars in Canada - nearly twice as much as the English investment.

# # # # #

"Self-protection and scientific accuracy alike prevent any one from dogmatically asserting whether Canada is predominantly English or American. Most Canadians prize the imperial tie. But it is an inescapable geographical fact that Canada is a North American nation. This birthright she does not, indeed cannot, deny, even if some of her more ardent imperialists prefer to consider it a mess of pottage.

"To an English visitor Canada seems overwhelmingly American. The dollar sign hangs high. Society appears formless, with a stong disposition toward plutocracy. Religion and morals follow an American pattern. There is the fierce puritanism of the country districts and the Methodist background of the cities. Education -- the public schools, colleges and universities -- shares the virtues and vices of the American democratic ideal.

"Some Canadians have titles; many revel in the vice-regal ritual of Government House. But more

indulge their love of display in the democratic but gaudy regalia of Elks, Moose, and Shriners.

"In Canada the Englishman's ease is disturbed by the rigid American division between business of work and the business of play. He finds the '9 to 5 o'clock in the office' cult in the ascendant, whether or not there is enough work to occupy the time.

"The Englishman is never sure of afternoon tea in Canada, and dinner is atrociously early. He sees, too, all the American altars on which digestion is sacrificed to time - cafeterias, quick-lunch counters, and drug stores with their varied array of panaceas wrapped in transparent paper.

"In politics, too, America looms large. If the Englishman crosses the frontier unawares when he is out West, he may find himself in the same position as the American immigrant who remarked after listening to a Canadian election meeting in 1900: 'Well, they sure were fine speakers, but could you make out who was for Bryan and who was for McKinley?' The Englishman would put Mr. Aberhart and his social-credit program in the same political menagerie as Father Coughlin or Dr. Townsend, but never Sir Oswald Mosely or James Maxton.

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"In the face of all this, the Englishman will be surprised to find in Canada a fierce sense of independence of the United States and a consciousness of differences. At various times these have amounted to an extreme susceptibility to anti-American propaganda.

"For there are differences, and distinct ones, between the two countries. Both are crudely capitalistic; organized labor can expect the same treatment in Canada as in the United States, and there is the same stress upon productive efficiency irrespective of the consumer. But the harsh features common in both countries are cast in a softer mold in Canada, the overtones are less strident. If, in both bountries, it is predominantly a 'business man's civilization,' it operates at a slower tempo in Canada than in the States.

"As individuals, Canadians like and understand Americans. But they think of the United States rather indiscriminately in terms of standardization, skyscrapers, frantic haste, Hollywood and gangsters; until the advent of the Dionne quintuplets they ceded to the Americans leadership in the mass production of everything.

"Canadians admire American material achievement. Yet they pride themselves on being less material-

istic: they cherish their tradition of law and order and flaunt their lower crime rate. Less nationalistic than their neighbors, yet they resent the fact that they are invariably mistaken for American tourists when they travel abroad.

"This attitude of independence is curiously cultivated, and often the sheer pressure of American influence has contributed to it. Outward and visable signs of this process have been the Canadian tariff on magazines and the formation of a publicly controlled broadcasting commission to offset the virtual monopoly of American radio programs.

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"These differences and this attitude may substantially be explained by the size and composition of the Canadian population.

"Canada filled up much later than the United States and enjoyed a flood tide of settlers for only a relatively short period. With the turn of the century the settlement of the prairies progressed rapidly, but the development was cut short by the war and the subsequent exclusive immigration policy. Consequently, Canada's expansive territory is populated only some ten millions; her failure to develop a

civilization as highly industrialized as that of her southern neighbor is a logical corollary.

"Then again, Ontario and New Brunswick were originally settled by United Empire Loyalist emigres who brought with them at the time of the American Revolution, an English tradition and a sense of opposition to the 'rebels' to the south which have not yet entirely disappeared.

"Today 52 per cent of the Canadian population is English, with a considerable leavening of Scots; apart from the French-Canadians, the other racial groups most important numerically are the Germans and the Scandinavians. All these elements have conspired to make Canada more stable, less volatile than the United States.

"But it is the French-Canadians - and nearly 30 per cent of the Canadian population is French - who are the most effective brake on the Americanization of Canada. That is not to say that they are in any sense European; they are a far cry from present-day France. But with their devotion to the Roman Catholic Church, their opposition to materialism, their cherishing of individual life, their passionate desire to preserve, at all costs, their cultural heritage, they form a distinctive and complete entity which is unique on the continent.

# # #

"Of all the factors which distinguish Canada from the States, that which is most perplexing to Americans is the Canadian relationship with Great Britian.

"To all intents and purposes, Canada is completely free from any legal or compulsory connection with the 'mother country'. She can, if she wishes, place an embargo on all British goods. If she wants to, she is free to resign from the Commonwealth of Nations and become the forty-ninth State in the Union. Or, if she wishes, she can form a defensive and offensive alliance with the Fiji Islands, and England cannot say her nay.

"Most Canadians, however, take for granted their membership in the British Commonwealth. But they have varying conceptions of the imperial tie and different reasons for maintaining it.

"If war is the ultimate test of loyalty, there are some who feel that Canada should follow Great Britain 'right or wrong.' There are others both conservatives and radicals, who advocate North American isolation from the woes of Europe.

"There is a large body of liberal opinion which sees in the Commonwealth a force for peace which can act toward that end through the League of Nations, not as an Empire bloc but as independent

units actuated by common pacific principles. And there are those who say, with the Scottish Labor M.P., 'The sun never sets on your British Empire because they canna trust ye in the dark.'

"Geographically, Canadian opinion varies as widely. Conscious of their United Empire Loyalist background, many in Ontario are emotional in their attachment to Great Britian. To French-Canadians the British connection is a guarantee against assimilation by the United States, although the possibility of conscription for a British war is a dread specter in Quebec politics.

"The concrete fact of a stable market for their wheat enters into the imperial sentiments of prairie Westerners; at the same time they have provided much of the driving power in the movement for national status, and they would not bargain away one jot or tittle of Canada's autonomous position. On the Pacific coast there are groups more English than the English, who take their political cues from the stentorian voice of the London Times, alongside groups strongly American in their sympathies.

"Thus the British tie, in contrast with Canada's relationship with the United States, is traditional, psychological and sentimental.

"Direct contacts between England and Can-

ada are few. But most newspapers are British in their sympathies; school textbooks have the same bias. No leader of significant political party has advocated severing the British connection. Organizations such as Canadian Clubs, Empire Clubs, the Imperial Order of the Daughters of the Empire, propagate the British gospel. Less important to the relationship, although more concrete, is the fact that Great Britain is Canada's best customer.

# # #

"What of the future? Canadians hope that they will not be forced to make a choice between Great Britain and the United States. That alternative would impose a well-nigh intolerable strain upon their national unity.

"Consequently, Canada may be expected to use all her influence to prevent any serious divergence of policy between England and the United States, as she did in 1921, when she persuaded the former to forego the Anglo-Japanese alliance.

"In the piping times of peace, this condition of Anglo-American harmony, so essential to Canada, is a relatively simple matter. But what would Canada do if faced with British participation in war and United States neutrality?

"In 1914 Canada acted automatically and immediately. Today her positions is different. She is an 'Autonomous unit' in the British Commonwealth. She is a member of the League of Nations. Toward the latter body she has adopted a consistently North American attitude in fighting shy of military commitments to maintain the European status quo.

"Since the war Canada has tended to look at Europe through American horn-rimmed spectacles and with an air of moral disapproval, rather than more intimately through the traditional English monocle. Lastly, she now feels free of the possibility of political annexation by the United States, a bogy often held out as the alternative to following Great Britain."

In particular, the figures of the trade between the two countries during the past fifteen years show that Canada's imports from the United States have ranged from a high point of $868,012,229 in the fiscal year ended March 31, 1929 to $232,548,053 in the year ended March 31, 1933. The greatest exports to the United States in the fifteen year period amounted to $560,701,936 in the year ended March 31, 1921, and the lowest were $148,529,831 in the year ended March 31, 1933.(1)

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(1). Condensed Preliminary Report of the Trade of Canada, 1934-35. Page 118.

The following table showing the percentage of merchandise imports from the United States to Canada to the total Canadian imports, the percentage of the merchandise exports of Canada to the United States to the total exports, the percentage of duty collected on imports from the United States to the total import duties collected, and the United States surplus of exports over imports, in millions of dollars is most interesting.

TABLE I(1)

YEAR	Surplus of U.S. exports over imports in millions (Canadian)	Percentage of Canadian imports from U.S.A. to total Canadian imports. (mdse.)	Percentage of Canadian exports to U.S.A. to total Canadian exports. (mdse.)	Percentage of duty on Canadian imports from U.S.A. to total Canadian import duty.
1921	295	69.0	45.6	63.7
1922	212	69.0	39.5	59.2
1923	161	67.4	39.6	55.9
1924	160	67.4	41.2	58.7
1925	83	64.0	39.0	55.2
1926	123	65.6	36.1	56.1
1927	208	66.6	37.3	57.1
1928	222	64.9	38.9	56.6
1929	346	68.6	36.7	61.2
1930	310	67.9	46.0	61.4
1931	220	64.5	43.7	59.8
1932	107	60.8	40.8	55.4
1933	84	57.2	30.2	55.7
1934	38	54.9	33.6	54.8
1935	72	58.1	34.1	58.5

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(1). Condensed Preliminary Report of the Trade of Canada, 1934-35 Pp. 118-119.

It is evident that the United States enjoyed a considerable surplus in the balance of trade between the two countries during the fifteen year period. If the surplus shown in the table told the whole story, the burden of this relationship might be considered intolerable to Canada. The large expenditures in Canada of tourists from the United States, however, tend to bring about a better balance between the two countries tnan is generally appreciated. With due allowance for tourist trade it would seem that the United States has spend more for Canadian goods since 1931 than Canadians have spent in the United States.(1)

The foregoing article and table should show fairly clearly just how much these two countries mean to one another. Some of the points mentioned will be expanded to some extent in the discussion of the history of the trade treaties between the two nations. Before taking up the history, however, let us look at some illustrative tariff systems and practices and see how they correspond and differ in various countries. This study should bring home the fact that the difficulties encountered in negotiating a trade treaty between nations are almost insurmountable in many cases.

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(1). The Royal Bank of Canada letter. May 1935.

CHAPTER 2

TYPES OF TARIFF SYSTEMS

There are a great many classes of tariff systems and rates but it will suffice for this discussion to observe some of the chief features in the practices of the United States, Canada, and representative European countries, noting particularly the various interpretations of the most-favored-nation clause.

Because of the movement now on foot to establish a free port in New York and in order to overcome the popular misconception of the meaning of the term, a brief definition of a free port will be given. It is just half a century since the first modern free port was established at Genoa, Italy, and New York's foreign trade zone will be one of forty or more now in operation throughout the world. Though they differ in layout, the underlying theory and the mode of operating them are similar. The modern free port is an area within a tariff-protected country into which foreign goods may come and from which they may be re-exported without paying duties. They serve the purpose of enabling domestic exporters to sort, clean, repack, grade and process foreign products, and in some cases to combine them with domestic products for shipment abroad. They do not affect the country's

tariff structure, since any goods which pass out of the free port area into the domestic market must pay the regular duties.

The Report of the United States Tariff Commission on Reciprocity and Commercial Treaties, transmitted to Congress in 1918 says in part:-

(1) "The survey of the reciprocity experiences and commercial arrangements of the United States which is made in this report shows that the country has not in the past followed a consistent and continuous policy. It is true that there has been a steady current of opinion in favor of the principle of securing for ourselves and of extending to others equality of treatment."

(2) "So far as commercial policy and commercial negotiations are concerned, the evidence presented in the present report indicates that a policy of special arrangements, such as the United States has followed in recent decades, leads to troublesome complications. Whether as regards our reciprocity treaties or as regards our interpretation of the most-favored-nation clause, the separate and individual treatment of each case tends to create misunderstanding and friction with countries which, though supposed to be not con-

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(1). Report to Congress of United States Tariff Commission, 1918, Pp. 9.

(2). Report to Congress of United States Tariff Commission, 1918, PP. 10.

cerned, yet are in reality much concerned. When each country with which we negotiate is treated by itself, and separate arrangements are made with the expectation that they shall be applicable individually, claims are none the less made by other states with whom such arrangements have not been made. Concessions are asked; they are sometimes refused; counter concessions are proposed; reprisal and retaliation are suggested; unpleasant controversies and sometimes international friction result."

The report then points out that there would be a great gain if the United States adopted a clear and simple policy with equality of treatment as the guiding principle. This would mean that the United States would treat all nations on the same terms and in turn require equal treatment from every other country. Possible exceptions to this principle of equality of treatment are pointed out, and the unique relationship between the United States and Canada is given considerable attention. Methods of enforcing equality of treatment are mentioned and the advantages and disadvantages of both the concession method and the method of additional duties are studied. However, as this recommendation has not been followed to the letter, a more intensive study of it is not advisable at this time, but rather a brief outline of the present American practice will be noted. Before doing this, in order to make the subsequent discussion

clearer, an explanation of the meaning of the terms "reciprocity" and "most-favored-nation clause" will be given.

Reciprocity and Most-Favored-Nation Clause*

Where each of the parties to a treaty makes special concessions to the other with the intention that the transaction shall be looked upon as a particular bargain and with the understanding that its benefits are not to be extended automatically, generally, and freely to other States, the agreements is called a "reciprocity" agreement.

In the making of commercial treaties a country may or may not seek a special and privileged position, but it has been a matter of especial concern to each country to be assured that it shall receive treatment at the hands of other countries at least as favorable as that which the latter accord to any others. Each country desires that such concessions and guarantees as have been made to others shall be extended to it; also that all which may in the future be granted to others shall equally be granted to it.

In order to safeguard against oversight at the moment of making a treaty, and to reduce the necessity for repetitions, an instrument was devised which should automatically assure or offer to newly contract-

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* Reference: Report to Congress of United States Tariff Commission in 1918.
Pp. 17, 19,390,392,393,462,463.

ing countries the benefit of concessions made, previously or afterwards to third countries. That instrument was the "most-favored-nation clause". It is neither the purpose nor the effect of the most-favored-nation clause to establish a "most favored nation"; on the contrary, its use implies the intention that the maximum of advantages which either of the parties to a treaty has extended or shall extend to any third country--for the moment the "most-favored"--shall be given or be made accessible to the other party; thus in practice to prevent the establishing of distinctions or discrimination in the extending of concessions and guarantees.

Both as regards interpretation and as regards phraseology, there have developed in modern times two distinct and conflicting usages. Up to the time of the American Revolution, the favored-nation provision had appeared in but one form, that of a pledge wherein no conditions were laid down as to the circumstances under which the concessions granted should extend as between the contracting parties. In the first American treaty, that made with France in 1778 there was attached to the usual pledge the qualifying conditional provision-"----freely, if the concession (to the third state) was freely made, or on allowing the same compensation, if the concession was conditional."(1)

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(1) Report to Congres of U.S. Tariff Commission.1918,pp.390

From that time forward the most-favored-nation pledge has been made sometimes with and sometimes without the qualifying stipulation. Where no such stipulation is attached, it is customary to speak of the clause as being "unconditional"; when the stipulation appears that there shall be compensation the clause is spoken of as "conditional." It has been the practice of the United States, almost without exception, to employ the conditional form. It is the practice of European States today, but it has not always been, to employ, almost without exception, the unconditional form.

Among unconditional forms there are distinguishable at least four, and possibly five types. The first distinction to be made is that between the unlimited and the limited pledges; next that between the unilateral and the reciprocal. In the unlimited but unilateral type, one country undertakes to give to the other, without reciprocity any or all favors and privileges which it has granted or may grant to any other (the most-favored) nation. Provisions of this type are found chiefly in treaties between States of which one is relatively strong and advanced and the other relatively weak and backward. In the reciprocal and unlimited type, the contracting parties agree mutually that each shall grant to any other or

all favors or privileges, in all matters referred to or not excluded, which it has granted or may grant to any other (the most-favored) nation. This type appears particularly in the contemporary treaties of European States between themselves; it is characteristically that of the "unconditional" most-favored-nation clause. It is gradually being superceded by a type which may be looked upon either as distinct or as a mere variation, a type which employs the same phraseology, but with the addition of the provision that the favors etc., referred to shall be granted "immediately and without condition." This has been more and more used in recent years; in the treaties of some countries it has become the standard type and is employed almost exclusively. The "immediiate and unconditional" provision appears in three only of the treaties to which the United States has been a party.

To the favored-nation pledge, whether in the unconditional or in the conditional form, there is frequently added a limitation, in the form of a provision to the effect that it is not to apply to or be invoked in connection with special arrangements such as those between a mother country and its colonies, those between limithrope countries, or those established, for reason specified, with countries named.

There are at least three distinguishable types of the conditional form. First, there are rare

instances of unilateral most-favored nation pledges in the conditional form. Second, the most-favored-nation pledge may be reciprocal, expressly conditional, and general (unlimited.) This is the type in which the conditional form most frequently appears: The contracting parties agree mutually that each shall grant to the other any or all favors and privileges, or all specified or not specifically excepted, which it has granted or any grant to any other (the most-favored) nation, freely, if the concession to the third is freely made, or on allowing the same compensation, or an equivalent, if the concession has been conditional. Third, a reciprocal pledge in the conditional form may be limited, as may the unconditional, by special specified exceptions.

The conditional form unlike the unconditional, recognizes and records a distinction between "concessions freely made" and "concessions made in return for equivalent." It contains the express stipulation that favored-nation treatment is to be accorded on a basis, constantly, of reciprocal concessions.

American Practice.

When a country signs a trade agreement with the United States, under what is popularly called the Hull policy and which calls for reciprocal agreements

with countries having multiple trade relations, it agrees that any concession it may accord in the future to any other country will likewise be granted to the United States, without any equivalent being given by the United States.

Of course the United States binds itself in like manner to the other country, But the net result is that any nation contracting with the United States puts itself in a position where it becomes increasingly hard for it to drive discriminatory, exclusive trading barriers with its neighbors. The value of any concession it might give is limited by the fact that it would have to accord the same privilege to the United States.

It is hoped that this foreign trade program of the United States will soon reach a stage where it will have a definite effect on world economy. The cumulative effects of concessions granted and obtained under most-favored-nation agreements will soon begin to cause changes in trade relations of foreign countries with one another as well as with the United States.

Another distinctive feature of American practice worthy of mention is the fact that throughout its tariff history there has been an unbroken

line of tariff laws in which it has been the uniform practice, except for slight deviations in 1909, to employ a single list of fixed duties intended for general application to imports from all countries alike. It has not been the policy of the United States to modify its schedule of duties by granting concessions to various nations with the intention that all the concessions shall be grouped into a supplementary tariff schedule and be extended to all. The policy of the United States is usually termed a single tariff system.

European practice.

In Europe, on the other hand, the tariff schedules have been mostly arranged by negotiations with individual countries and hence the commercial treaty pledges of European nations exhibit a great many variations in intent and wording, and therefore come under the classification of multiple tariff system, which involves the establishment of two or more schedules of duties which are applied to the imports from various countries according to the circumstances. Great Britain, Belgium, and Denmark are three important European countries employing single tariff systems while practically all of the other States employ one or other of the multiple tariff systems which are often classified as, Preferential, Maximum and

Minimum, General and Conventional, and Combinations and Modifications.(1)

As far as the most-favored-nation clause is concerned, European States have long since altered their commercial policies. They have adopted new theories and practices in regard to commercial treaties and treaty bargaining. The commercial liberalism which met with favor in the leading States of Europe after the middle of the nineteenth century emphasized the theory and practices of generalizing concessions - that is, of extending, without condition, to all nations entitled to most-favored-nation treatment, the benefit of concessions made to any. Thus the use of the unconditional interpretation, became the common European practice. Notwithstanding later changes in their commercial policies and tariff systems, European States have found it still convenient to generalize the concessions which they make, and such being the case, their most-favored-nation practice has remained, and is unconditional.

Many of these countries now devise the rates in their statutory tariff schedules with distinct and particular reference to bargaining possibilities; they expect to make reductions, on the basis of concession

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(1). For further explanation of these see Report to Congress of United States Tariff Commission 1918, pp. 462 and 463.

for concession, by negotiation with other countries individually, and then to extend the benefit of all their reductions, generalizing them, to all the countries with which they have most-favored-nation agreements.

Some peculiarities found in various countries are deserving of mention. In the Netherlands, for example, a system of complicated monopoly controls has grown up, in addition to tariffs and quotas. Foreign negotiators must know all sorts of fees, import licenses and similar requirements before they can judge of the value of any concession that might be offered to them. Spain has other quotas and exchange controls to plague the negotiator. France has a quota system which, although it has been fairly equably applied, is a greater barrier to trade than its tariff duties. These particular nations have been mentioned because together with Switzerland and the Central American countries, they are the nations most likely to conclude trade agreements with the United States in the near future.

Canadian Practice*

Up to this point only the American and European practices have been discussed and compared.

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*Reference: Report to Congress of the United States Tariff Commission, 1918. Page 505.

The Canadian situation has been purposely avoided because it can be more clearly presented in itself as its unique connections set it apart from the nations already considered. Moreover, the question of tariffs has been a political football in Canada ever since Confederation. The Liberal Party has constantly advocated free trade especially with the United States, while the Conservative party has been strongly protectionist in its policies. It was not until the ground work for the 1935 Reciprocity Act was being laid that there was any semblance of agreement between the two parties. The effects of this lack of a national policy on Canada's international connections in the past will be brought home more specifically in the sections dealing with the history of the relationships between United States and Canada.

The Canadian tariff system is a multiple tariff one of the "Preferential" Type devised for effective bargaining with European countries. It differs from the European systems, however, in that it established by its own legislation a regime of special treatment in favor of others.

In the Canadian tariff there are three schedules of duties, all enacted by law - a general, an intermediate, and a British preferential schedule.

The rates of the general schedule are applied to imports from all countries not entitled by law or by treaty to special treatment. The intermediate schedule is intended as an instrument for negotiation - its rates may be applied to the products of any country in consideration of benefits satisfactory to the Governor in Council. Since 1897 Canada has given preference to imports from the United Kingdom. The preference consisted originally of a reduction of one eight from the general duties on almost all dutiable articles; in 1898 this reduction was made one-fourth; and in 1900 it was made one-third. In 1906 the uniform deduction was discontinued and specific rates were prescribed for British goods. By this change it became possible to adjust the preference to the individual requirements of trade in given articles; it also rendered simpler the calculations to be made by customs officials.

South Africa, Australia, and New Zealand have all followed the example of Canada in the establishment of a preferential schedule in favor of certain British articles.

The Ottawa Agreements in 1932 further differentiated the British preference, not so much by lowering the British duties as by raising the general rates, particularly against products from the United States.

One particular feature of the Canadian system, up to the time of the 1935 Reciprocity Act, has been the arbitrary method of evaluating imports. Whereas in most systems the list price in the exporting country is taken as the base for computing the duties, in Canada many of the products imported were evaluated arbitrarily with apparently very little thought being given to the list price in the exporting country.

All British Empire countries, of course, receive most-favored-nation treatment from Canada and in addition many nations with whom treaties have been negotiated under the intermediate rates receive the benefits of the status. According to the Canada Year Book, 1934-1935 the Dominion extends most-favored-nation treatment to the following non-Empire Countries:(1)

Argentine Republic; Austria; Belgium and Luxembourg; Belgian colonies, posessions and mandated territory; Brazil; Colombia; Czechoslovakia; Denmark; Estonia; Finland; France and French colonies; Germany; Hungary; Italy, colonies and possessions (now affected by economic sanctions); Japan; Latvia; Lituania; Netherlands; Netherlands Indies, Surinam and Curacao;

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(1). Halifax Herald, Nov. 20, 1935, Editorial.

Norway; Portugal, including Madeira, Porto Santo and Azores; Roumania; SerCroat-Slovene Kingdom (Yugoslavia); Spain; Sweden; Switzerland; Venezuala.

The foregoing brief outline of the various tariff systems now in practice illustrates the difficulties which confront negotiatiors of reciprocity agreements and serves as a basis for a study of the history of the more important Canadian-American Agreements and disagreements from 1854 to 1934.

CHAPTER 3

HISTORY OF AMERICAN-CANADIAN TRADE RELATIONSHIPS 1854 - 1934*

The Reciprocity Act which went into effect last January was but the latest of a long series of attempts which have been made to bring Canada and the United States, by the removal of commercial restrictions, into closer commercial relations. Only once has such an attempt been successful. A reciprocity treaty negotiated in 1845 was ratified, was put into force in 1855, and remained in force for eleven years.

Until the year 1846 the British North American Provinces had not a commercial policy of

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*Reference: For history to 1911:

(1). Report to Congress of the United States Tariff Commission, 1918. PP. 22, 23, 63-66, 82-85, 93-97, 365.
(2). U. S. Foreign Relations, 1873, Pt. II Vol. III. PP. 410-424.
(3). U. S. Foreign Relations 1893, Page 330.

their own. In their relations with other countries they were governed from England: British interests and policies, rather than Canadian, determined the form and the course of their relation with other countries. While this was the case, efforts of the United States to establish freer intercourse with the people of the Provinces proved futile. "The Government of the United States," wrote Henry Clay in 1826, "has always been anxious that the trade between them and the British colonies should be placed upon a liberal and equitable basis. There has not been a moment since the adoption of the present Constitution when they were not willing to apply to it the principles of a fair reciprocity and equal competition; there has not been a time since the same period when they have understood the British Government to be prepared to adopt that principle. The struggle on the side of Great Britain was to maintain her monopoly and on that of the United States to secure an equal participation in the trade and intercourse between them and the British colonies."(1) This applied to the British West Indian colonies as well as to the Canadian Provinces.

The great revolution in colonial and commercial policy which was carried through by the

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(1). Report to Congress of the United States Tariff Commission 1918, Page 63.

British Government in 1846 and the years immediately following made it at once possible and necessary for the North American Provinces to seek closer commercial relations with the United States. "Canada", which then consisted of the United Provinces of Upper and Lower Canada (later Ontario and Quebec), was hard hit by the repeal of the Corn Laws, under which grain from the Provinces had been admitted to Great Britain at generously preferential rates. The Maritime Provinces also suffered, though not in equal degree, in their shipbuilding and seafaring interests from the repeal of the Navigation Acts, and in their forest industry from the reduction of the preference in the British duties on lumber.

The withdrawal of the British preferences forced the colony to shift for itself and produced for the time being a most depressing effect upon its commerce.

But the legislation of the Peel government, although it thus threw the Provinces upon their own resources, afforded to them by that very fact the opportunity to act for themselves. An amendment in 1846 to the British Possessions Act put it in their power thereafter to initiate and determine their own commercial policy.

It became possible, then, for Canada to choose

among three divergent policies. She might seek to subordinate foreign to domestic trade, by protection and counties, and to secure her independence of American canals and railroads, by building up a transportation system of her own. Or she might, going to the other extreme, cast in her lot with the neighboring Republic, and ask for annexation. Or, between these two extremes, she might seek the necessary outlet for her products in and through the United States, and yet retain her political connection with the mother country. Each of these possible policies had its advocates, and the situation was further complicated by internal dissensions arising from racial and religious antipathies. Of these possibilities, the course most promising at the time was that offered by the compromise policy of close commercial relations with, but political independence of, the United States. To this plan the Canadian Government committed itself, with the hearty acquiescence, from the beginning, of Great Britain.

But there were two obstacles in the way of reciprocity. One was that Canada had little to offer for which the United States cared to bargain. Outside of the border States little was known in the United States of Canada's possibilities. Imports into Canada were relatively small in amount and not

much impeded by the tariff, which had now been reduced to an average of 7½% ad valorem. Previous to 1846 there had been but four years in which the total exports of the United States to all the British Provinces in North America had exceeded $6,000,000; and in no year had the imports therefrom reached $2,000,000. A more important obstacle to adequate consideration of Canadian trade relations lay in the fact that the attention of the United States was taken up with the Mexican War. The prosecution of that war, the terms of peace, the organizing of the territory acquired, and the problem of extending or excluding slavery - all involving grave constitutional questions - occupied Congress so completely that there was left little time or interest for such a matter as Canadian commerce. These two groups of factors, rather than any positive opposition in the United States to reciprocity, delayed for eight years efforts to arrive at an agreement.

Treaty of 1854.

When finally signed and ratified the Reciprocity Treaty of 1854 provided(1) "that the United States and Canada should enjoy mutually the Atlantic coast fisheries and the canal systems of both countries and provided also for the use by Americans of the St.

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(1). Report to Congress of the United States Tariff Commission, 1918 page 22.

Lawrence River and by British subjects of Lake Michigan. With respect to commerce, it virtually established free trade in natural products between the United States and the British North American Provinces. It was to run for ten years, and thereafter subject to two years' notice for termination."

The effect of the reciprocity arrangement on the trade between Canada and the United States has been a matter of dispute from the time of the ratification of the treaty to the present day. This has been due in part to the highly unsatisfactory character of the statistics of both the United States and the British North American Provinces during the period when the treaty was in force, and in part to the fact that there were in operation contemporaneously with the treaty a member of other factors which peculiarly affected the volume of trade between the two countries.

The treaty achieved the main purpose for which it was negotiated - relief of the tension over the fisheries controversy; but it did not have the effect of stimulating the American fishing industry. The opening of the St. Lawrence River and the Canadian canals to American shipping did not result in an increase in American traffic on those highways, but it did afford a choice of routes, which relieved con-

gestion and insured reasonable railway rates to the Atlantic seaboard.

In any attempt to estimate the effect of the tariff changes on the trade between Canada and the United States, cognizance must be taken of a number of factors which complicated the situation and of facts which make calculations difficult. The investment in Canada of great sums of English capital, the Crimean War, the opening of new settlements areas in the West, increase in population, improvement of transportation facilities, speculation, a commercial crisis in both countries in 1857, financial difficulties leading to a fundamental change in Canadian fiscal policy, and finally, the Civil War - all these influenced the course of developments both within each country and between the two, making it impossible to determine conclusively with regard to various increases and decreases whether they were or were not consequences of the treaty.

Nevertheless there resulted from the treaty increased trade between the two countries which was more marked in regard to imports from Canada than in regard to exports to Canada. During the treaty period, the relative share of the United States in Canada's import trade increased; after the termination of the treaty, it decreased. While the treaty actually

benefited some American producers and injured none save fishing, lumber, and possibly coal interests - and these in small degree - it was, on the whole, of greater benefit to the export trade of Canada than to that of the United States. It was anticipated when the treaty was concluded that such would be the case, but it was expected that the United States would be compensated for this by the opening of the Canadian coast fisheries and waterways and by the benefits to American railways and commission houses. These expectations were fulfilled in a considerable measure until the revision of fiscal policy in Canada and the conditions of the Civil War in the United States altered the situation. During the eleven years of the reciprocity period, the total trade between the two countries increased approximately threefold, and, for the United States, the trade with Canada became second in importance only to that with Great Britain. How much of this was due to the improvement in general relations between the two countries and how much to the reciprocity provisions of the treaty can not be determined. But it may safely be asserted that, in its several features, the reciprocity arrangement contributed largely to the very considerable growth of trade and that both countries were benefited by it.

The main causes which brought about the

abrogation of the treaty were the adoption of protectionist principles and practices in Canada during the Civil War, and the need of increased revenue in both countries. To these may be added the dissatisfaction of the fish, lumber, and coal interests in the United States.

During the term of the reciprocity a national consciousness had developed in the Canadian provinces, in fact although no actual union took place, the trend in commercial dealings was from the vertical to the horizontal plane. Then too, at the end of the Civil War the South demanded and received, because of the hostile feeling at the Canadians' attitude to the war, a greater share of the agricultural trade of the North thus depriving the Canadian provinces of a great deal of their agricultural market. The indifference of the United States Congress and the fear that it would be a blow to the policy of protection also helped to close the door to a further reciprocity agreement.

The termination of the treaty involved the termination of the arrangements which had relieved the polical tension in Canadian-American relations. It offered the possibility of serious political consequences. The action of the United States and the hostile attitude of the American people of which it was an evidence, were

prominent among the factors which brought about, in 1867, the uniting of the Canadian Provinces into the Dominion of Canada.

The commercial effects of the abrogation were less than had been expected. In so far as trade was affected at all, it was the United States rather than Canada that suffered. The chief direct effects on the United States seem to have been to lay the burden of certain duties on the American consumer and to divert from American railways and merchants a part of the business of transporting, handling, and re-exporting Canadian produce. The chief indirect result was to establish among the Canadian people a sense of grievance which affected trade to some extent and which undoubtedly contributed in no small measure later to Canada's rejection of reciprocity when the United States finally proposed it.

The following table showing the exports and imports in millions of dollars of the Province of Canada and of the Dominion of Canada, to and from the United States from 1853 to 1870 depicts to some extent the effects of the reciprocity and its abrogation, but, of course, the effects of natural growth, etc., must be kept in mind.

(1) TABLE II

Year	Total exports to U.S. in millions. (Canadian)	Total imports from U.S. in millions. (Canadian)
Province of Canada		
1853	15	14
1854	19	19
1855	20	25
1856	40	27
1857	43	24
1858	31	16
1859	24	18
1860	27	17
1861	36	21
1862	28	25
1863	--	23
1864	36	23
1865	41	20
1866	--	20
1867	45	20
Dominion of Canada		
1868	45	23
1869	46	21
1870	53	22

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(1). Taken from tables in the Report to Congress of the United States Tariff Commission, 1918. Page 82, 83, and 84.

Relationships for the Next Forty Odd Years

For thirty years after the termination of the reciprocity treaty, Canadians continued to express a desire for reciprocity and they made overtures several times to that end. Her proposals throughout were moved by the desire to gain for her natural products access to the American market, and one proposal differed from another only in what it offered in exchange.

At first Canada's statesmen looked upon the attitude of the United States as transitory; they expected an early return of sentiment favorable to receprocity. Accordingly, the successive tariff acts of the Dominion retained the moderate level of duties introduced just before Confederation; the free list continued to include most of the articles that had been free under the treaty, and there were added to it raw materials and partly manufactured goods that were essential to various manufacturers, shipbuilding and railroads. One change was made, indeed, that was to play an important part in later negotiations - the imposition of an export duty upon pine, oak, and spruce logs to encourage sawmilling by offsetting the American duty upon lumber. Meanwhile, scarcely a year was allowed to pass without an effort to reopen discussion with the American Government.

In 1869 circumstances seemed propitious and

Canada offered, in return for free admission of Canadian natural products, free "access to the inshore fisheries, enlargement and use upon equal terms of the Canadian canals, free navigation of the St. Lawrence, partial assimilation of customs and excise duties, the concession of an import duty equal to the United States internal-revenue taxes, and the free admission to each country of certain manufactures of the other."(1) But the American Government did not even give these proposals serious consideration. Provoked by the rebuff, and finally dispairing of success through conciliatory measures, the Canadian Government in the spring of 1870 made a tentative experiment in retaliation. Duties were put upon salt, coal, grain, flour, and hops, with the provision that the Governor General in Council might suspend these "whenever it appears to his satisfaction that similar articles from Canada may be imported into the United States free of duty."(2) The effect of this was unsatisfactory in Canada, and it influenced American policy not at all. Accordingly, in the following year the Canadian Government repealed the duties.

(1.) & (2.) Report to Congress of United States Tariff Commission, 1918, Page 93.

Despite the persistence with which Congress rejected Canada's reciprocity proposals there was an important and active element, both in the country generally and in Congress, that favored more liberal commercial arrangements with the growing market in the north. The chief commercial organizations of the country strongly favored the negotiation of a new treaty, petitions came to Congress from boards of trade and similar organizations in the largest and most important cities, various State legislatures passed resolutions to the same purport, and many of the leading papers advocated the cause. This body of opinion was not, however, of sufficient authority to command the necessary support in Congress.

In 1871 there was concluded between the United States and Great Britain the treaty of Washington.[1] "It was agreed that for the use of the Canadian fisheries the United States would concede free admission of fish and oil, and in further compensation would pay any sum fixed by a commission to be appointed later for the purpose.. The arrangement concerning the fisheries was to endure for ten years, and thereafter until the end of the second year following notice by either party of a desire to terminate it. Reciprocal provisions were made for the use of

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[1] U.S. Foreign Relations, 1873, Pt.II,Vol.III,Pp.410-424

national waters and waterways, and the American Government further engaged to urge upon the State governments to grant the same rights upon State canals. The treaty also provided for the transit of goods in bond free of duty through either country to the other."

The treaty was a bitter disappointment to Canada, where it was felt that England, in disposing of the fisheries and waterways controversies, had thrown away the most effective lever for opening the American market.

From 1871 to 1874 both countries devoted themselves to internal development, but in 1874 a treaty was drafted wherin [1] "the free list not only contained the articles which had appeared in the treaty of 1854, but also, in addition, agricultural implements, boots, shoes, furniture, vehicles, print-paper, steel, leather, and wool. But there was included a provision whereby everything made free to the United States was also to be made free to Great Britain; therefore when President Grant sent the draft of the treaty to the Senate and asked for advice, it was returned with the opinion that it was inexpedient to proceed with the matter."

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1. Report to Congress of the United States Tariff Commission, 1918. Page 95.

The rejection of the treaty came in the midst of the business depression which followed the crisis of 1873. Hard times prevailed on both sides of the border, but owing to her less highly developed business organization Canada suffered less than the United States, and prices there were somewhat better maintained. This led to a preponderance of imports from, over the exports to, the United States - a phenomenon which strongly influenced public opinion, since it was construed as a reversal of what had been previously, for Canada, a "favorable" balance of trade. Depression and low prices in the United States greatly stimulated American exports to the Dominion, and the subsequent change of trade currents was destined to be maintained, with a few exceptions, for over a decade. The result was to give more strength to the growing demand for protection in Canada. Fiscal conditions combined with those of a more general economic nature to promote a higher tariff policy. The decrease of Canadian imports from all countries, by diminishing the customs receipts, caused recurring deficits that greatly embarrassed the administration.

In the years immediately following this rejection, the attitude of the United States was resented throughout Canada, and, when the Conservatives were overwhelmingly returned at the polls in

1878 on the strength of their promised retaliatory policy and their motto "reciprocity of trade or reciprocity of tariffs," the movement toward protection in Canada was given a great impetus.

In 1884, after Canada's foreign trade had attained a remarkable growth, there began a depression from which it did not recover entirely until 1890. This encouraged the Liberal Party to renew the agitation for freer trade with the United States, while an active, though unofficial group, carried on a widespread and effective propaganda in favor of a complete commercial union. As it happened the reopening of negotiations between the two countries was at this time practically forced by two circumstances - one was Canadian discrimination in transportation rates; the other, more important, was the abrogation by the United States of the fisheries clauses in the treaty of Washington.

The abolition of tolls on the Erie Canal in 1882, which enabled vessels thereafter to pass free on all American canals, diverted much traffic from the Canadian routes. On the Canadian canals the charges were 20 cents a ton, and to remove this disadvantage there was established in 1884, a drawback of 18 cents per ton upon shipments to Montreal, while upon cargoes going to American ports the full rate

was maintained. Next, the Canadian Pacific Railway (completed in 1885) offered transcontinental traffic rates too low for the American lines to meet.

The sense of injustice which these measures aroused in the United States was intensified by the treatment which Canada accorded to American fishermen.

Then Canada offered a settlement of the fisheries difficulty in consideration of a mutual arrangement providing for greater freedom of commercial intercourse. The rejection of this proposal in 1888 marked the climax of the ill feeling which had persisted from the time of the Civil War. Thereafter this feeling gradually gave way to a more friendly and conciliatory attitude.

There still remained open the matter of Canadian rail and canal discriminations. As a means of settling this, President Cleveland, who had wisely refrained from enforcing the non-intercourse act, requested in a special message of August 23, 1888, the power to suspend free transit through the United States of goods shipped between Canada and foreign countries; but Congress failed to take action. The situation was to some extent improved in 1889 through the entry of the Canadian Pacific Railway into the Transcontinental Rates Association. By the act of Ju-

ly 26, 1892, the President was instructed to countervail discriminating rates on the Dominion canals by suspending the free passage of Canadian vessels using the Sault Ste. Marie Canal and imposing retaliatory tolls. Canada thereupon substituted for her former charges and drawback a uniform toll of 10 cents per ton, payable on both the Welland and (or) the St. Lawrence Canals. This was a concession in form rather than in substance; but the American charges were removed and the retaliatory practices were discontinued.

From 1891 to 1911 reciprocity ceased to be a practical issue. In Canada, where it had been a feature of political platforms for half a century, there was no formal disavowal; on the contrary the Canadian tariff, until 1897, continued to include an offer of reciprocity in natural products; but everyone knew that the provision was meaningless. The Canadian public gradually lost interest in a policy which appeared to be impossible of realization, and efforts were concentrated upon fostering the means of domestic traffic and opening the necessary markets for Canadian exports in other parts of the world.

In the United States, there was enacted in 1897 the Dingley Tariff Act. This act affected commercial relations with Canada in several ways. It contained a provision for increasing the import duties

upon lumber by an amount equal to the export duty which Canada had imposed upon logs. The threat was sufficient to cause Canada to remove her export duty. But the United States gained practically no advantage thereby, for in 1900 the Province of Ontario, and later British Columbia, Quebec, and New Brunswick enacted requirements that timber cut on the Crown lands should be manufactured in Canada. These laws proved more effective than the Dominion's export duty and actually encouraged a very considerable transfer of American capital and enterprise to the forests of these Provinces. No other provision of the Dingley Act was aimed specifically at Canada, but the rates named in the act were so high as to be, under normal conditions, almost prohibitive for some Canadian products, such as barley. The influence of the act was shown not in an actual decrease of American imports from Canada, but in the failure of those imports to increase in proportion to the growing ability of Canada to compete in the American market.

Barred from the United States markets by the rates of the tariff of 1897, Canadian producers turned their attention to developing better markets in the mother country and in other British colonies.

[illegible]

[illegible]

As an aid in this direction the Canadian Government provided in its tariff act of 1897 a system of preferential duties upon British imports.

The preferential arrangement as revised in 1898, applied to imports from the United Kingdom and such British colonies and possessions as gave equally favorable treatment to their imports from Canada. The preference was originally a uniform fraction of the general duties; later it was reduced on a few commodities - especially woolens- owing to complaints of domestic manufacturers and in 1907 the preferential duties were made a separate schedule, independent of the general rates.

Meanwhile, the policy of the Canadian government had become, as already explained, as strongly protectionist as was that of the United States. It is true that the Canadian duties were usually not so high as the American, but, according to the evidence of the debate in the House of Commons, they were arranged so as to discriminate as far as possible against American imports; and the tariff was supplemented by other measures, some intended to discourage imports from the United States and some certain to have that effect, whether intended so or not. Prominent among the latter were an extremely stringent patent law; the imposition of a tax of 15 cents a

pound upon the admission of foreign circulars, advertising matter, etc; and the addition to the tariff act (in 1904) of an "Anti-dumping" clause.

Mention has already been made of the encouragement given by the Canadian Government to the construction of railway lines east and west rather than north and south. Such routes as were thereby afforded were, however, considerably more expensive and involved greater delay than transportation to and from the American centers. Therefore neither politics nor sentiment was able to prevent the gradual multiplication of branch lines across the border. In 1910 not only had the direct trade with the United States increased enormously, but of Canada's exports to the other countries no less than 27% was still shipped through the ports of the United States. But Canada's railways had opened for her producers a substitute for the American market which was especially useful when that market was oversupplied, unduly manipulated, or closed by the tariff.

A more fundamental economic obstacle to the growth of commerce was the fact that among Canadian products there were but a limited number which the American consumer desired. This had a counter-part in the fact that there were some Canadian needs which American producers could not supply.

The unequal industrial development of the two countries placed a limit to the kinds and quantities

of goods which Canada could sell to the United States. Of nearly all the manufactured articles which figured in the trade, with the exceptions of paper and flour, Canada bought more from the United States than she sold there.

On the other hand, an examination of the figures of Canadian imports from the United States makes it abunduntly evident that the growth of Canadian industry and the establishing and maintenance of protective duties aimed principally at the wares of the United States had remarkably little effect in reducing imports from that country, although it is possible that the duties may have retarded the rate of increase of these imports.

That the trade between the United States and Canada underwent an unprecedented development in spite of these deterring factors is a notable illustration of the weakness of artificial barriers against the potent economic forces controlling commerce between neighboring countries. The more important of these forces in this instance may be briefly indicated. Of primary importance: Commerce between the United States and Canada was in many essential respects more in the nature of domestic than of foreign trade. Propinquity, similarity of speech, of commercial law, of business methods, and of monetary

units facilitated the transaction of business. Trade descriptions, price quotations, credit systems, commercial ratings were developed in like manner and put to like uses in both countries. Similarity of environment, racial relationship, and frequency of intercourse resulted in an identity of fashions, habits, and wants. There was an active movement of tourists and settlers in both directions. All these things contributed to make the trade between Canadians and Americans the same as the trade of each with their fellow countrymen, and thereby tended to foster it.

Side by side with the interests and habits thus shared in common, there were differences in the physical resources and technical development of the two countries that made exchange of many articles profitable and, indeed, necessary.

There were other more special reasons for commercial growth. Investments of American capital in Canadian industries often took the form of the establishment or purchase (in whole or in part) of the enterprises to be controlled and officered by American business men.

There was an extensive similarity of industrial requirements and needs in the two countries. Many patterns created in the United States to meet special American needs were produced nowhere else.

Under these circumstances the greater part of Canada's import trade was supplied by the United States. What Canadians purchased from other countries was, in the main, precisely what the people of the United States also had to import.

In sum, the growth of Canada's prosperity and population was reflected in her trade with the United States. While Canada's legislative restrictions may have modified the character of the trade, they seem, however formidable in appearance, to have had little effect upon its volume. The development of her domestic industries displaced some American products, but it created a new demand for others. Upon the whole, history probably affords no better example of the degree to which the growing prosperity of one country accrues to the benefit of its neighbors.

Attempt at Reciprocity 1911.

In the framing and exactment of the tariff act of 1909 Congress made an approach to the two-schedule tariff system. The rates of the maximum schedule were to be applied to all countries not found to be extending satisfactory treatment to the products of the United States, and those rates amounted to a penalty duty of 25% ad valorem - in addition to the regular duties - on all goods on the dutiable list.

Canada found herself, along with other countries, threatened with the maximum duties; their application would without doubt very nearly have put an end to her export trade with the United States and would probably have brought on a disastrous tariff war.

Hoping to avert this needless blow to the business interests of both countries the United States made several attempts to reach some reciprocal agreement with Canada.

It was at length agreed that the United States Government was to be satisfied with the extension by Canada of the intermediate instead of the general rates in application to thirteen articles imported from the United States. Among these articles were soap, tableware, cottonseed oil, leather, perfumery, watch movements, and photographs. These reductions would have very little fiscal effect; in the previous fiscal year the articles of the group in question had been imported into Canada from the United States to the value of $4,814,293, and the proposed reduction in the duties would - it was estimated - involve a loss of revenue to Canada, assuming imports to remain the same, of only $192,814.

It was in this manner that the new movement for reciprocity had its origin; but when once under

way it was given momentum in the United States by the operation of another provision of the tariff act of 1909, namely that imposing retaliatory duties upon Canadian wood, pulp and paper. The use of news-print paper in the United States had been growing very rapidly, but the imports of paper and pulp from Canada, which had a practically unlimited potential capacity for producing both, had amounted to but an insignificant percentage of the consumption. It was generally believed by American consumers (principally the press) that their interests had been sacrificed in the tariff for the benefit of a manufacturing combination. By the tariff act of 1909, a sliding scale of duties upon paper had been arranged to reduce the rates generally applicable. But the reductions did not affect Canada, since it was expressly provided that the rates of the previous tariff should continue to apply towards any country or dependency which levied an export duty upon wood, pulp, or paper; and in addition that a contravaling duty be collected equivalent to the export duty of the producing country. This provision had been framed for the particular purpose of retaliating against the export duties of the Canadian provincial governments.

A reciprocity arrangement was finally

negotiated at Washington in January, 1911. Two points were settled quickly to the satisfaction of both sides. One was that the arrangement should take the form of a current legislation instead of a treaty, for the reason that the Canadians wished to be free at any time to annul it if it should prove after trial to be unfavorable to their interests. The other was that Canada would not exchange the right to the inshore fisheries for the free admission of fish to the United States. The Canadian representatives consented, however, to annul the license charges which had been required of American fishermen under the modus vivendi of 1887, and to retain only the nominal fee of a dollar a year upon each vessel as an evidence of unimpaired national control.

The arrangement affected nearly one half of all the imports into the United States from Canada, but only one fifth of the imports into Canada from the United States. The articles placed upon the free list included more than forty percent of the United States imports from Canada and less than ten percent of the Canadian imports from the United States. Of the articles placed on the free lists, there had been on the dutiable list of the United States over seventy six percent, in Canada less than seventeen percent. The previous United States duties were to remain on

less than 5% of the imports from Canada; and the Canadian duties were to remain on more than 35% of the imports from the United States. The Canadian imports from the United States, however, were of much greater total value than the United States imports from Canada; and the absolute values of the imports to be affected in each direction, were almost the same.

The most important results of the agreement would have arisen from free admission of rough lumber and the reduction of duties upon dressed lumber, laths, and shingles.

Such then, were the character and the possibilities of the agreement. It should be noted that its provisions were addressed exclusively to import duties. By this arrangement Canada was to obtain practically everything that she had formerly sought by way of reciprocity, while her concessions were to be little more than those which she had already extended to most countries, but not to the United States, through the operation of her conventional tariff.

After some discussion the bill passed Congress on July 22, and it was approved by the President on July 26, 1911. In Canada, however, it was a different picture.

During the preceding 20 years, the growth of cities, the building of east and west railways, the establishing of interprovincial traffic, the diversi-

fication of industries, and the development of overseas markets had been attained in spite of the refusal of reciprocity. Business had adjusted itself to prevailing conditions; there was greater and more general prosperity than Canada had ever known before. Conservative leaders contended that a sudden change of policy was uncalledfor and ill advised at a time when Canada's production was greater than ever before, when markets and transportation facilities were adequate and the prices received by Canadian producers the highest they had ever been. They even asserted that any benefits which might be expected to flow from the conclusion of the arrangement would probably soon come to Canada without concession, through changes to be made in the American tariff by the Democratic party.

Perhaps the most telling point they made against the proposed arrangement was the security as to the length of its duration. Also they pointed out that Canada would be unable to make any change in her tariff without the consent of Washington - her commercial agreements would be subject to approval or veto by the United States Senate; even the British preference might, upon the demand of Congress, have to be sacrificed.

Even more effective with the electorate,

though less well founded, was the argument that reciprocity would be a fatal blow to Canada's industries and would undo all that had been achieved by the "national policy"; Canada would be reduced to the position of a producer of raw materials, while all the skilled and highly paid labor would be performed in the United States.

But it is not likely that the agreement would have been defeated in Canada upon economic grounds alone, for in reality it offered no threat to any existing Canadian industry, and it promised benefit to the farmers, fishermen, and lumbermen, whose political influence was very great.

Rather it was the blundering remark of Champ Clark that the proposed reciprocity act would be "the first step in annexation of Canada." So far as reciprocity was the real question of the voters there is little doubt that the decisive factor was the fear that commercial intimacy would lead to annexation. In fact it is the unanimous judgement of observers who watched without prejudice the progress of events in Canada that the fear of annexation was more potent than all other causes combined in defeating the Liberals, on the basis of reciprocity. The result of the elections of course put an end to further consideration of the reciprocity measure.

The events of 1911 constituted an interesting reversal. Whereas in previous years reciprocity had the active support of the Canadian people, it was now rejected by popular majority at the polls. In any earlier period it had been made by Canadian statesmen the subject of repeated overtures and proposals which had fallen upon deaf ears in the United States. In 1911, both the administration and the legislature in the United States gave the project their approval only to see it rejected in Canada by the electorate.

Also the events of 1911 pointed out the great part played by party politics in the trade relationships of a country and to what extent propaganda may be used in order to gain an end.

It will have been noticed that this last and the other attempts at reciprocity together with the reciprocity of 1854, have been given considerable attention, perhaps more than would seem to be justified, but the factors entering into international negotiations are so well portrayed by them that a more brief discussion might leave something to be desired.

Moreover the relationship between Canada and United States from 1911 to 1935 offers very little, with the exception of the Hawley-Smoot Tariff and the Ottawa Agreements, which would serve constructively as the basis for the study of the 1935 Reciprocity Act.

Figures for the period from 1911 to 1929 show a marked and regular increase in the trade between the two countries but there are so many factors entering into the situation such as the Underwood Tariff in effect from 1913 to 1921, the Great War, the Post-War depression, the Emergency Tariff act of 1921, the Fordney-McCumber tariff of 1927, and the natural growth of the two countries, etc., that little can be gathered from them as to the relative effects from free trade and protectionist policies. The following brief summary of the exports and imports of the United States to and from Canada as taken from the Condensed Preliminary Report of the Trade of Canada 1934-35,(1) reveals that the exports were tripled and the imports increased almost five fold during the period.

YEAR	American EXPORTS TO CANADA	American IMPORTS FROM CANADA
1911	275,824,265	112,208,676
1915	297,142,059	186,342,856
1920	801,097,318	501,130,117
1929	868,012,229	521,267,087

The Hawley-Smoot Tariff and the Ottawa Agreement, however, have had a decidedly different effect;

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(1) Condensed Preliminary Report of the Trade of Canada, 34-35 p. 118-119.

but before looking at their effects a brief examination of their chief features and of the causes leading up to them should be presented.

Hawley-Smoot Tariff and the Ottawa Agreements

The United States agriculture had not profited proportionately during the boom so President Hoover requested a limited tariff revision in the United States. Instead of a limited provision, however, the legislation dragged on for a whole year because of the lack of opposition, both parties having supported the protection of industry in the 1928 platforms. When the Hawley-Smoot tariff finally went into effect on June 18, 1930 the result was the greatest upward revision, in many cases, in history on a list of 1,500 items, the greatest upward revision being on agricultural products. Based on the 1932 rates, the agricultural product rates were increased 13.76%.

This revision caused immediate world repercussion, and France, Argentina and Canada led the move in immediate retaliation. Domestic business men, economists, and the public in general added their protests but the bill went through.

As far as Canada was concerned, the tariff aroused so much resentment that the Liberals were driven from power, and the Conservatives, committed to a policy of retaliation, enacted tariff laws of their own that were virtual boycotts of American products.

In 1932 a meeting of representatives of the British Empire was held at Ottawa. Previous conferences had been unsuccessful in forming a more firm British economic unit because England was committed to a free trade policy while the Dominions were interested in protection. This difference of opinion still existed for Premier Bennett announced that Canada would make no concessions which did not primarily consider Canadian interests, and would grant no preferences preventing complete absorption of her own production by the Canadian market. Other Dominions took a similar position. However, Canada later agreed that protection against British competition would be afforded only to those industries which were reasonably certain of success.(1)

Britain's attempt to eliminate existing barriers caused foreign comment to belittle the results which might be called bilateral agreements, recognizing the diversities of the Empire countries rather than their theoretical unity.

As finally constituted, the Ottawa Agreements affected 225 items in the Canadian tariff. On eighty-one items there was a reduction of the British preferential rate, while on eighty nine items an increase in the rate to outsiders was put into force. The free

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(1). Business Week, Oct. 26, 1932. p. 24-25.

list on Empire products increased from eighty one to one hundred and fifty seven, and on forty nine items an increase in the foreign rate was levied and a decrease in the British rate was granted. Quotas favoring Empire products also were used to regulate the imports. These quotas and increases of import rates were at the expense of foreign trade, particularly that with the United States.

Despite this fact however, the American comment at the time was of the opinion that the loss of British trade would be greater than the loss of Canadian trade to the United States, because Britain would be forced to trade more with Canada, but could not, however, supply Canada's needs to any greater extent.(1)

The Hawley-Smoot Tariff and the retaliatory measures of Canada formed an almost prohibitive barrier in respect to farm products. The Canadian exports of agricultural products to the United States declined from $92,134,000 in 1929 to $6,948,000 in 1933. Before the Hawley-Smoot tariff bill invited retaliation, the Canadians bought agricultural products from the United States in an amount exceeding eighty millions. By 1933 the business had dropped to eighteen millions, a fact that may help to explain the necessity for farm

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(1). Business Week, Oct. 26, 1932. p. 24-25.

relief in the United States. Table I shows most pertinently the degree to which Canada switched her trade from the United States after 1930. The total trade between the two countries fell off terribly from 1929 to 1934. Canadian exports declined from $868,012,229 to $238,187,681 and her imports dropped from $521,267,087 to $199,350,932. Similarly Canada's exports of lumber to the United States fell from 140 millions in 1931 to 108 millions in 1934.(1)

However, in evaluating the effects of the Hawley-Smoot Tariff and the Ottawa Agreements, it must be kept in mind that the money - value of trade is not an absolutely accurate guage of comparative traffic volume, for the simple reason that commodity prices have been far lower in these depression years than they were in what we regard as normal times. And therefore, figures of money-value are smaller today in proportion to tonnage than they were in 1929 and 1930. It should be noted also that the volume of world trade has shrunk tremendously, since the crash of 1929. As one striking example consider these figures. The money-value of Canadian imports from non-Empire countries in 1930 was $995,598,980 whereas in 1934 this figure was $293,394,739, which includes both the falling off in actual trade volume and the shrinkage in money-value of trade.(2)

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(1) Figures from the Condensed Preliminary Report of the Trade of Canada 1934-35. PP 51-52.

(2) Halifax Herald, Editorial Nov. 25, 1935.

But taking both these shrinkages into account, the fact remains that these latter two protectionist tariffs have cut markedly into the trade between the two countries.

In glancing hurriedly back over the discussion to this point it is quite evident that the free trade and reciprocal arrangements have tended to boost the trade of these two countries, while the protectionist and retaliatory measures have cut deeply into their commerce with one another and have generated a great deal of bad feeling and misunderstanding of a most dangerous type.

CHAPTER 4

RECIPROCITY ACT OF 1935

When the Concervative party in Canada, with Premier R. B. Bennett as the spokesman, began the negotiations with Secretary of State Cordell Hull for the reciprocity which was finally culminated in 1935 by the Liberal party, under Premier W. L. MacKenzie King, there was a great deal of this dangerous misunderstanding in both countries. But fortunately things were smoothed over to the general satisfaction of all concerned and the Reciprocity Act of 1935, regarded in most quarters as one of the greatest forward steps in history, went into effect on January 1, 1936.

Chief Features

The 1935 Reciprocity Act in its scope and far reaching consequence is comprehensive, covering all lines which entered into the speculative forecasts, and exceeding them in many respects as trade of more than half a billion dollars is affected.(1)

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(1). New York Times and New York Herald Tribune of Nov. 18, 1935.

It is a long, detailed and intricate document, and all its implications cannot be digested at once, but no one can doubt the breadth of its scope.

Canada is the second largest buyer from the United States, while the United States is Canada's second largest customer.

The duties affected by the new Canadian concessions, it is estimated, would cover over three-fourths of the total dutiable exports to Canada from the United States in the pre-depression period. The concessions made by the United States would affect about two thirds of her total imports from Canada in the same period.(1)

The basis of the agreement from the Canadian angle consists in the extension to the United States of the most-favored-nation treatment, as was proposed by the former administration there. It means, in plain terms, that in the matter of tariffs, the United States is to get as preferable a position in the Canadian market as any other country secures. Here-

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(1). New York Times and Ottawa Citizen, Nov. 18 and 19, 1935.

tofore the United States has been under the general tariff. Now, "in its entirety" - stress is laid on that - the intermediate tariff is extended. In addition, specific reductions better than the favored nation treatment are made in 88 tariff items. All in all, the treaty means lowered charges on United States products covering no fewer than 767 items and sub-items of the Canadian tariff.

Naturally, the items of beneficial operation to Canada under the agreement are natural or primary products. Those in which free access is furnished to the Canadian market are essentially manufactured goods.

Between the Canadian general and intermediate tariffs the ratio varies somewhat, but the average is approximately five per cent. The agreement will run for three years anyway, but may be terminated on six months notice. Therefore, if either side wishes to cancel it, this can be done in six months' notice.

Perhaps no change is of more general interest than the duty on motor cars. On the cheaper types - under $1,200 - the reduction is 2½%. Over $1,200 it is 7½%. In the highest price cars it is 10%. The special excise of 5% also comes off.

A great many items - scores of them - are specifically enumerated but everything hereafter dutiable coming into Canada from the United States is affected. Where the general or highest tariff has heretofore applied the intermediate will now apply. In many instances, they are the same.

The Canadian consumer, assuming that the duty reductions are passed on to him, will benefit from these changes while the American consumer will have a similar advantage. In the United States tariff there is no counterpart to the Canadian intermediate schedule but instead the concessions are of a special character.

The principle of quantitative restriction or quota applies to several of the United States concessions. The whole volume which may be available in certain specific lines may be sent across the border on the reduced basis of duties. But the Presidential power of cutting the duty by 50% is not exercized to the full, while, to the extent that it is exercized, the quota restrictions are applied.

An analysis of the agreement shows that in addition to the extension of the intermediate tariff to the United States, the added features such as seasonal tariffs, limitations of discounts, dumping duties and arbitrary valuations comprise the main

concessions which compensate for the freer access to the United States market for some 88 Canadian commodities. These are in the agricultural line, the lower duties - the maximum lowering not exceeding 50% - on clover cattle, cream, seed-potatoes, grass seeds, hay, turnips and maple sugar. On lumber and timber the cut is in half both of customs and excise. Ferro alloys, feldspar, talc and lime are included in the mineral field, and halibut, salmon, lake fish and smoked herring, but no codfish, are in the line of fish concessions. In the category of manufactures, the reductions apply to whiskey, pulp for wall board, patent harness and saddle leathers. There is nothing to speak of about wheat.

In the list of items imported from the United States and subject now to the intermediate tariff or special concessions in addition to the removal of the special duties, automobiles of all kinds and their parts are of outstanding importance. Many things for the home on which the duties are lowered include kitchen and plated wares, electric refrigerators, sewing machines, silk wares, boots, shoes, fruits, furs, jewelry, and glass tableware. These are only a few.

The duty-fixing provisions of the treaty, apart from the duty reduction provisions, guarantee maintenance of the former free list and guarantee no

change in the 10% ad valorem tariff now collected on a number of cereal products.

Forest products on the American guaranteed free list are pulpwood, pulp, and newsprint paper, shingles subject to quota, logs, round timber, posts, ties, poles, laths, pickets, railings, hoops, and staves. Mineral products on the list are asbestos unmanufactured, cobalt and cobalt ore, nickel and gypsum. Fishery products on the list are sea herring and smelts, clams, crabs, oysters, lobsters and scallops. Other products so treated are certain undressed furs, calcium, cyanide, sodium, sulphuric acid, and farm implements of which Canada is the principle supplier to the United States.

The present 10% duty on wheat unfit for human consumption, bran, shorts, other by-products and mixed feeds and screenings of grain and seeds is guaranteed against increase.

A point upon which stress is laid is that in the agreement no concession violates the principle of the Empire agreements. The United States, it is definitely stipulated, is not to participate in the exclusive advantages conceded to the Empire.

On broad lines, this is the picture of the new agreement which the official statement amplifies in detail. Canada has made concession on a greater

number of items than she has received. But the claim is that the large bulk of Canadian exports fall within the limited number of classifications of the United States tariff while the Canadian classification is more varied. The 'benefits' are claimed to be equal.(1)

The following summary taken from the New York Times, Nov. 18, 1935, embodies the general provisions of the Reciprocity Act in a most concise manner and explains the interpretation given to the various concessions as found in the detailed text of the act.

"Washington, Nov. 17.--The following is a summary of the trade agreement between the United States and Canada issued by the State Department here today:

General Provisions of the Agreement:

"In addition to the two schedules reducing or binding customs duties or binding items on the free list, the trade agreement contains a number of general provisions designed to safeguard the tariff concessions and to improve the commercial relations between the two countries.

"Under Article I, the United States and Canada agree that each will accord to the commerce of the other unconditional most-favored-foreign-nation treatment in

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(1). The discussion of the treaty to this point has been based on the editorials and special features of the Ottawa Journal, Nov. 18, 1935, and the New York Times, Nov. 18, 1935.

respect of customs duties and related matters. This means that if either the United States or Canada reduces any customs duty applicable to foreign importations (i.e., in the case of Canada, to non-British importations), either autonomously or in connection with a trade agreement with a foreign country the like article of the other country will immediately get the benefit of the reduced rate. The practical importance of this assurance is that exporters in each country will continue to be able to compete in the other country on a parity with other foreign producers and that the concessions which each country has granted to the other will not be impaired through the granting of greater concessions to any third foreign country. The Agreement, of course, contains (Article XIII) certain generally recognized exceptions to the most-favored-nation clause.

Provisions in Regard to Quantitative Restrictions.

"Article II extends the principle of equality of treatment to quotas. It provides that in the event a quota is established by either country, it shall allot to the other country a share equivalent to the proportion of the trade which the other country supplied during a previous representative period. Article IX provides similarly for fair and equitable

treatment in the event that either country should adopt any form of exchange control.

"With the exception of a reservation whereby either country is free to impose restrictions in conjunction with governmental measures operating to regulate or control the production, market supply, or prices of like domestic articles, such as are provided for in the Agricultural Adjustment Act, and certain generally accepted reservations such as restrictions imposed for sanitary reasons or reasons of public security, Article VII provides that neither country shall impose import prohibitions or restrictions on those products of the other country which are listed in the schedules. Thus this article further safeguards the customs concessions by insuring that they will not be impaired by means of quantitative restrictions. Provision is made for consultation between the governments of the two countries with respect to import restrictions imposed in conjunction with governmental measures operating to control the production, market supply, or prices of like domestic articles. If, after consultation, the governments of the two countries fail to to reach an agreement with respect to the proposed restriction, the dissatisfied government may denounce the Agreement in its entirety on thirty days' notice. This provision, it will be noted, requires the government which would impose the restriction to weigh carefully

the advantages thereof against the advantages of the entire Agreement.

"Articles III and IV, in addition to giving effect to the duty concessions in the schedules, prevent the imposition or increase of other charges on importation of the articles listed in the schedules except as required by mandatory laws in force on the day of the the signature of the Agreement. However, Article V permits the imposition at any time of charges on imported goods equivalent to an internal tax on the like domestic product from which the imported product has been manufactured.

"Article XI provides among other things that in case either country objects to the application of any sanitary measure, now or hereafter in effect, a committee of experts may be established under this article to consider the matter and to make recommendations to the governments of the two countries.

Conditions Under Which A Concession May Be Withdrawn.

"Under the providions of Article XIV, each country reserves the right to withdraw any concession or to impose a quota on the article in question if, as a result of the extension of the concession to third countries, such countries obtain the major benefit and an unduly large increase in importations occurs. This provision is designed to safeguard domestic in-

dustries against the possibility of particularly severe competition from a country other than the one which is a party to the trade agreement. The great care with which products were chosen for inclusion in the trade agreement and the fact that concessions are confined to products of which Canada has been the principal or an important source of imports into this country makes it reasonable for the domestic interests which may be affected to count, in general, on their principal foreign competition coming from Canada. If it should happen, however, that another country should derive the major benefit of a reduced duty and total importations increase unduly, action as provided for in this article could be taken. It should be noted, however, that before such action is taken, notice must be given to the other country which has the right to terminate the entire trade agreement if it does not agree to the withdrawal of the concession or to the imposition of a quota.

"Article XV provides that the duty concessions specified in the schedules shall come into force on Jan. 1, 1936, pending ratification in respect of Canada. The entire Agreement will come into force on the day of the exchange of the ratification and the proclamation at Ottawa. The Agreement will remain in force until Dec. 31, 1938, unles terminated before that time under the provisions of Article VII (quotas), Article X, (cur-

rency variation) or Article XIV (major benefits to third countries). Unless at least six months before Dec. 31, 1938, either government has given notice of intention to terminate the Agreement on that date, it will remain in force thereafter, until six months from that day on which such notice is given, subject to the provisions of the three articles mentioned above."(1)

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(1). New York Times, Nov. 18, 1935, Page 12.

In addition to these general features it should be noted that the concession which is most important to American exporters is the one under which Canada agreed to modify the arbitrary method of raising valuations on American products. This feature seemed more important to shippers than any rate concession granted by Canada. On numerous occasions it was pointed out, Canadian values fixed on American goods for customs purposes have been raised 100% or more, without prior notice to American shippers.

Under the new agreement, in arriving at the value for duty purposes it is proposed that this "will not include any advance over selling cost greater than that which, in the ordinary course of business under normal conditions of trade, is added, in the case of goods similar to the particular goods under consideration, by manufacturers or producers of goods of the same class or kind in the country of export."(1)

It is proposed also to change the Canadian Customs Act so that discount rates will not operate to increase the value for duty of goods unduly. Appeals to the tariff board against values for duty set by the customs authorities will be provided for.

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(1). Ottawa Journal and New York Times, Nov. 18, 1935.

In particular the chief United States and Canadian concessions are shown in the following table compiled by the Herald-Tribune Bureau and taken from the November 18, 1935 issue of the New York Herald-Tribune.(1)

Chief United States Concessions

Tariff Reductions

Article	Old Rate	New Rate
Cattle of 700 lbs. or more each (quota of 155,799 head).........	3¢ lb.	2¢ lb.
Calves less than 175 lbs. each (quota of 51,933)...............	2½¢ lb.	1½¢ lb.
Dairy cows of 700 lb. each (duty reduced on not over 20,000 a yr.)	3¢ lb.	1½¢ lb.
Cream (duty reduced on not over 1,500,000 gal. a year)..........	56.6¢ gal.	35¢ gal.
Live poultry.........................	8¢ lb.	4¢ lb.
Chickens....	10¢ lb.	6¢ lb.
Maple sugar.........................	6¢ lb.	4¢ lb.
Apples..............................	25¢ bu.	15¢ bu.
White or Irish potatoes (duty reduced on not over 750,000 bu. a year)........................	75¢ per 100	*45¢
...*(60¢ December through Feb.)....		
Halibut (among other fish).........	2¢ lb.	1¢ lb.
Lumber (Douglas fir and Western hemlock have duty reduced for not more than 250,000 M per year)...	$3 per M	$1.50 per M
Whisky (aged not less than 4 yrs)..	$5 a gal.	$2.50 gal.

Duties are also reduced from 15 to 50 per cent on cheddar cheese, horses, inedible oats, cereal breakfast foods, berries, cherries, hay, turnips, grass seeds, seasonal peas, certain mineral products not including copper, patent leather, electric cooking stoves, ice skates, lacrosse sticks and a few other articles.

Existing duties or duty exemptions are bound on

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(1). New York Herald-Tribune, Nov. 18, 1935.

inedible wheat, feeds, certain fishery products, pulpwood, pulp and newsprint paper, crude asbestos, shingles, certain mineral products, undressed furs, etc.

Chief Canadian Concessions

Chief Canadian concessions to the United States follow:

Revamping of Valuation System

Canada to eliminate arbitrary assessments which boosted the charges of American products.

Tourist Exemptions

Canada to follow the American practice of permitting its travelers to bring back $100 of purchases duty free.

Tariff Reductions

Specific decreases and bound duties on 180 articles and extension to the United States of Canada's intermediate tariff rate schedule, or more-favored-nation treatment, involving reduction of duty on 767 items. The following are a few of the reductions:

Article	Old Rate	New Rate
Agricultural machinery, ad val......	25%	12½%
Some tractor types.................	25%	Free
Machinery (iron and steel)..........	35%	25% -5%
Mining machinery....................	25%	20%
Radios..............................	30%	25%
Electric Refrigerators..............	40%	30%
Dressed lumber......................	25%	20%
Paper...............................	35%	30%
Magazines...........................	2-15¢ a copy	Free
Auto engines........................	27½%	25%
Autos($1,200 to $2,100; chassis)....	30%	22½%
Autos (under $1,200)................	20%	17½%
Off-season fresh vegetables.........	30%	15%
Fruits..............................	20%	15%
Grapefruit..........................	1¢ lb	½¢ lb.
Oranges (January through April).....	35¢ cu.ft.	Free
Grapes..............................	2¢ lb.	1½¢ lb.
Meats...............................	8¢-5¢ lb.	6¢-2½¢

Feeling in General

Criticism of the reciprocity treaty between Canada and the United States comes as a matter of course from those quarters in both countries which profess to look upon imports as something akin to the germs of a devastating disease. Similarly it is only natural to find many dissenting voices among the "special interests" in both countries. Before taking up the arguments of these "special interests" and attempting to prove the fallacies of many of them, however, let us look at the sentiment in general in both countries and in Great Britain as portrayed in the comment of leading statesmen, industrialists, agriculturalists, etc., and by the press of both nations at the time of the signing of the agreement.

President Roosevelt of the United States was most enthusiastic. The text of his statement in brief was:

"The trade agreement which has just been signed between the United States and Canada places the trade relations between the two countries on a basis of mutual agreement for the first time since 1866. I am happy to have a part in removing this anomaly in the relations between two countries which are united by so many bonds of friendship and common heritage.

"The signing of this agreement marks the

reversal of the trend of the last two decades toward undue and unnecessary trade barriers between the two countries. I am confident that this constructive step will contribute greatly to the economic recovery of both the United States and Canada."

Going further the President predicted that the agreement would double the commerce between the two countries within two years and he expects the reduced whiskey rates to help materially in fighting bootleggers.(1)

Premier King, speaking for the Canadian Government to the persons assembled at the signing, said in part:

"On behalf of Canada, I heartily reciprocate the sentiments of international good which you have so generously expressed.

"I believe with you that the signing of this agreement is witness of the joint intention of the Governments of United States and Canada to give rapid effect to our policies in a practical manner. At last our formal trade relations have been brought into harmony with the underlying realities of public and private friendship between our two peoples.

"The agreement, will, I am confident, con-

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(1). Washington dispatch to New York Times, Nov.18, 1935.

fer substantial benefits alike on the producers and consumers of both countries, while safeguarding with great care every essential interest. I feel sure that its value will be shown beyond question by a marked increase in commerce within the next few months. This undoubtedly will help both countries to make more rapid progress towards complete economic recovery.

"Nor will this agreement benefit North America alone. All the world will gain from greater trade on this continent.

"Nor will its benefits be confinedto trade. To an anxious and troubled world we hope that there will be opened to the nations, by the force of our example, vistas of a surer path to progress and a more lasting road to peace."(1)

Secretary of State Hull hailed the agreement as marking "a revolution in the trade relations between the two countries." The substance of his comment was:

"The United States and Canada are neighbors with a common frontier of 5,000 miles. It is manifest that innumerable opportunities for mutually profitable trade between these friends and next door neighbors must exist. During 1929 the United States was selling

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(1). Washington dispatch to the New York Times, Nov. 18, 1935.

to Canada about $900,000,000 of commodities, a substantial proportion of which was farm products and was purchasing over $500,000,000 in return. Since 1929 our exports to Canada have slumped to about $300,000,000 or a loss of some $600,000,000. This loss has resulted in large measures from short-sighted tariff policies."(1)

The glaring omissions which the Canadian Conservative Party saw in the treaty are: Its failure to secure any concessions for the cod and haddock fishing industries of the Maritimes, its failure to secure a market for food potatoes for all the provinces of Eastern Canada, its failure to secure concessions for the dairying industry of Quebec and Ontario - other than a quota on cream - its failure to do anything to assist the marketing of Canadian wheat and other grains and flour.(2)

United States Secretary of Agriculture Wallace felt that "the net effect of the agreement will be good for the farmers, as it will be good for the whole country."

He said further: "The United States has always had a greater volume of trade with Canada than with any other nation except the United Kingdom.

"This extremely profitable mutual relationship, amounting on the average to over a billion dollars a year, was rudely broken off by our tariff

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(1). Washington dispatch to the New York Times, Nov.18,1935.
(2). Ottawa Citizen, Nov. 18, 1935.

act of 1930 and by the retaliatory Canadian tariff shortly thereafter. It is my opinion that the new trade agreement with Canada is beneficial to all people of the United States and especially to farmers."(1)

The terse statement of former President Hoover, eighty-six words in length, was as follows:

"The Canadian treaty is just another instance of this hasty economic planning without full consideration of consequences. There has been no opportunity given for public debate, no opportunity for adequate hearing of the groups affected.

"But this much even now is obvious. It means still larger imports of foreign food. It thus means further decreases in the home market for American agriculture. It brings hardship to hundreds of thousands of dairy and other farmers.

"I presume it is more of the more abundant life--for Canadians."(2)

American business leaders were divided as to the advantages and disadvantages of the agreement. The following comments are representative of the opinion throughout the United States.(3)

Edward H. Cooley, manager of the Massachusetts Fisheries Association, said the industry had not suf-

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(1). Washington dispatch to the New York Herald-Tribune Nov. 18.

(2). Chicago dispatch to the New York Times, Nov.18, 1935.

(3). New York Times, Nov. 18, 1935.

fered as much as had been feared.

"There was some loss to the industry in items cut," he said, "But the general portion is not damaged. Our industry is turning very materially to fillets which were not cut."

Cooley expressed pleasure that no duty reductions had been made on cod, haddock and related species of fish.

E.H. Jones, Vermont state commissioner of agriculture, said: "The agreement will mean inestimable loss to Vermont agriculture."

James D. Mooney, president of the American Manufacturers' Export Association said at New York that there was not the slightest doubt that trade would broaden and that even the people who think they will be hurt will benefit.

W. S. Moscrip, president of the Twin City Milk Producers' Association said: "It will make every American dairy farmer feel he has been betrayed by the administration."

Henry F. Merrill, chairman of the port of Portland, Maine, said that the pact was "the greatest impetus given shipping on the Atlantic seaboard in many years."

Fred Brenckman, legislative representative of the National Grange commented: "It is cold comfort to the American farmer."

A. C. Van Winkle, counsel for more than 20 Kentucky distillers, said that to lower the duties on Canadian whiskey "is to give Canadian distillers an utterly unwarranted advantage."

Speaking for business leaders in the Detroit area as a whole, Charles E. Boyd, secretary of the Retail Merchants' Association of the Board of Commerce, stated that America's reciprocal tariff agreements with Canada were particularly welcome to Detroit and Western Ontario merchants.

"The effect of the agreement will undoubtedly be a sharp stimulation of trade between the two countries and a deepening of the good-will that has so long obtained," he said.

Francis S. Bruyn, president of the Textile Export Association of the United States, said that "the textile manufacturers should be surprised and pleased at tariff reductions on their products."

Mr. Crompton in his statement for the National Lumber Manufacturers' Association was most caustic of the treatment accorded American lumbering but his comment was much too long for reproduction here.

Virtually all comment from leading Canadians, particularly from primary producers, praised the treaty.(1)

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(1). Canadian Press dispatches in the Montreal Daily Star, Nov. 18, 1935.
Editorial and comment in the Witness, Nov. 23, 1935

Gordon Scott, president of the Canadian Industrial Alcohol Company, called it a boon to Canadian distillers and a blow to American bootleggers. H. C. Hatch, chairman of Hiram Walker-Gooderhan & Worts, estimated that Canadian whiskies could be sold in the United States for at least $1 a bottle less than the present price.

Duncan Marshall, Ontario Minister of Agriculture, predicted that "the reduction of a cent a pound in the duty on Canadian cattle would add a cent a pound to the value of cattle in Canada" and he looked for an enlarged market for Ontario cream along the border. J. A. McFeeters, chairman of the Ontario Milk Board, said, however, that the Canadian dairy industry felt that the reductions did not go far enough.

Miss Agnes McPhail, member of the Canadian Cooperative Federation, Opposition in the Dominion Parliament, did not allow partisan feeling to restrain her comment. "The psychological effect of the new tariff will certainly be wonderful in rural districts," she declared. "It would have been impossible for the farmers to continue to carry on as they were doing."

Ross McMaster, president of the Steel Company of Canada, declared: "The objectives of the treaty will find general acceptance. The interests of our primary producers are all important. An in-

crease in purchases by the United States from Canada would appear inevitable. For some years the Canadian steel industry pursued a price policy calculated to support the interests of the ultimate consumer and generally speaking, dependence on the tariff has been confined to competition resulting from depreciated currencies or countries with depressed labor rates."

A. O. Dawson, president of the Canadian Chamber of Commerce, expressed the opinion that the treaty would help the basic industries of lumbering, fishing, and agriculture, but added that a feature he did not like was the lack of permanency in the treaty which expires at the end of 1938 if either country serves advance notice.

"The new trade agreement is a step in the right direction," said Sir Edward Beatty, president of the Canadian Pacific Railway System. "Some of the public were disappointed concerning the pact without really knowing how if affected the whole of Canada. I would like to see a tariff balance sheet to show how a country benefits and suffers, particularly in regard to employment, as a result of the agreement. We must endorse the policy of greater trade; we cannot live without it. Party considerations will disappear with a government of such enormous strength and power."

A casual glance at the above comments brings home the fact that those interested in the good of the nations are enthusiastically in favor of the treaty, while the "special interest" leaders are divided as to the advantages of the agreement.

The newspaper comment in the two nations follows along the same lines, for instance, Conservative newspapers in Canada criticized the treaty on the ground that, in the words of The Toronto Mail and Empire, it "endangers some major Canadian Industries" without adequate compensating general benefit and that it was of temporary and even uncertain duration.(1)

Similarly significant was the approval given to the treaty by The Montreal Gazette, which reflects the views of finance and business.(2)

"To the extent to which it opens the American market to Canadian natural products", the paper says, "the treaty will undoubtedly be helpful and very materially helpful to this country."

While doubting that the quota system will prove wholly satisfactory, the Gazette continues: "Nevertheless the plan does offer opportunities to Canadian primary industries which are distinctly promising."

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(1). Toronto Mail and Empire, Nov. 18, 1935.
(2). Montreal Gazette, Nov. 18, 1935.

The paper criticizes the treaty in some respects, however, notably on the ground of "the important feature of instability, one of the gravest drawbacks to any trade agreement with the United States."

It declares that another objection is to be found in the fact that "the existing disability under which the Dominion has labored for fifty years by reason of an adverse trade balance is not being corrected and may easily be increased."

The Witness, an independent Canadian paper, points out that the important thing about the agreement is "that it is a reversal of the tide of economic nationalism, which with temporary eddies has been the main current in both countries for nearly 70 years."(1)

The Liberal press in Canada was of course entirely in accord with the agreement.

In the United States the newspaper comment varies with the location and the interests of the paper.

The far-flung Scripps-Howard chain of 24 newspapers scattered from the Atlantic to the Pacific coast said that politics being what they are, the agreement is the best for the advantage of both Canada and the United States that could be worked out at the present time. They comment that the agreement is a "start in undoing the damage" to trade between the two

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(1). The Witness, Nov. 23, 1935.

countries which came from the Smoot-Hawley Tariff Act of 1930 and the retaliatory measures introduced by the government of former Premier R.B. Bennett."(1)

The Christian Science Monitor of Boston was heartily in favor of the agreement although it does not go as far as that influential paper wished it might, but it commented that public opinion probably would prevent any greater concession at present by either country. It felt that the erection of barriers against trade by retaliatory steps has been a snowball process and that this agreement reversed the process and perhaps now trade across the border may be stimulated by the same degrees by which it has been progressively strangled.(2)

The Kansas City Star said that president Roosevelt has accomplished an agreement with Canada "without outraging United States agriculture." The Des Moines Register concluded that "U.S. Farm interests have not been harmed at all and, as a matter of fact, will gain more than they have been called upon to sacrifice." The Register minimized long-range effects of such concessions as made on cream, declared that eastern United States industry is entitled to whatever benefits the agreement will give it, and noted that "Canada is making concession on middlewest products

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(1). Montreal Daily Star, Nov. 19, 1935.
(2). Christian Science Monitor, Nov. 18, 1935.

which she has imported in the past to the value of more than $12,000,000 per year."(1)

The Portland Oregonian assumes an entirely different attitude when it says: "Eastern political observers and correspondents interpret eastern opinion only, and perhaps not all of that, when they note restraint in criticism of the new Canadian trade deal. Reduction of Canada's tariffs will benefit some American manufacturing industries; but examination of the schedules covered by the agreement will show that Canada has made few if any deep cuts. The tariff wall has been slightly lowered at numerous points, but nowhere demolished. On the other hand, Messrs. Roosevelt and Hull slashed American rates to the full limit allowed by law."(2)

Along with the Christian Science Monitor the the following excerpt from the New York Times best summarizes the opinion of Americans in general.

"The reciprocal trade treaty between the United States and Canada is the greatest single step toward the reduction of tariff barriers and away from economic nationalism that has been taken anywhere since the onset of the depression. As such it is not only a fine achievement in itself, but a hopeful augury of a

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(1). Summary of Comment in New York Times, Nov. 18 and 19, 1935.

(2). Portland Oregonian, Nov. 23, 1935.

wider restoration of international trade and sanity.

"There is no doubt that special interests, and those who shiver at the very word 'imports', will attack this treaty. They began to do so even before they knew its terms. But if they get a serious hearing it will only be because they succeed in distracting attention from the effects of the treaty as a whole. They will argue that this or that American industry will be hurt by the reduction in American duties on Canadian goods. But they will say nothing about the great gains to us all as consumers. And they will have to draw attention away from the gains promised for our exporters, not only by giving greater purchasing power for our goods to Canadians, but by the direct tariff concession to our California and Florida fruit growers, our agricultural machine manufacturers and our automobile industry. Imports from Canada dropped from $503,000,000 in 1929 to $232,000,000 in 1934, or 54%. Exports from the United States to Canada dropped from $899,000,000 in 1929 to $302,000,000 in 1934, or 66%. The new treaty will help producers on both sides of the border to win back at least a substantial part of this lost trade."(1)

In Great Britain the treaty was a most welcome surprise. An article headed "London, Nov. 18"

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(1). New York Times, Nov. 22, 1935.

taken from the Nov. 19, 1935 issue of the New York Times sets forth the British position most admirably.

"After watching the Canadian-American trade negotiations with some uneasiness for the last fortnight, British exporters awoke today to find that the completed treaty had conferred unexpected benefits upon them.

"The last thing anyone expected from the Washington negotiations had been assistance in the United Kingdom's export trade. Now it has come, with the revision of Canadian customs regulations which should benefit British as well as American exporters, and also with the wholly unlooked-for slash in the American tariff on Scotch whiskey.

"Distillers here were jubilant today at the prospect of exporting hundreds of thousands of gallons more liquor to the American market. Scotch liquor exporters have been bitterly disappointed over their American sales since the repeal of Prohibition.

"The first ten months of this year British exports spirits - largely whiskey - to the United States were only 1,167,000 gallons, or 34% below the figure for the corresponding period the year before. The reason universally given in the whiskey trade has been the prohibitively high American tariff on foreign liquor.

"With the duty cut in half, distillers in Scotland believe that they will be able to regain

this year's loss and exceed the figures reached in 1934 in the first flush of eagerness after repeal, when exports to America reached almost 1,700,000 gallons.

"Officials here also welcomed the Canadian-American pact; the present government has always expressed a desire for the reduction in tariff barriers throughout the world. In this spirit the British concluded over a score of reciprocal agreements and have insisted again and again that their own tariff was a weapon to force further reductions in the future."(1)

There is just one point which should be cleared up before discussing the arguments in general and those of "special interests" against the treaty. A great many people conform to the Economic Nationalists 'and the American Self Sufficientists' view that the agreement is not all that it should be, because, to quote them, "We are bound to get the worst of it under our so-called most-favored-nation practice, because we must give all these Canadian benefits to thirty other nations from which we get nothing in return." According to Dr. Henry F. Grady, head of the Trade Agreements Division, "countries other than Canada will obtain relatively little benefit from the reductions in duty made by the United States. In 1929, imports from Canada on which duties have been lowered were 94% of the total imports

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(1). New York Times, Nov. 19, 1935.

of these commodities from all countries combined."(1)

This is a most interesting point as the most-favored-nation practice is a very much misunderstood and abused part of the tariff systems of both countries.

It is only natural that the Republican party in the United States should scrutinize the agreement in a frantic search for possible loopholes through which they might embarass the President and prevent the nation having a taste of the advantages of reciprocal trade before the next general election. It is only natural that Mr. Hoover, prosecuting an effort to achieve his return to the White House, should trot out the old argument that since the agreement was of some advantage to another country it must of necessity be harmful to his own.

Similarly, it is only natural that the Canadian Conservatives should, for political reasons, attempt to find flaws in the agreement. But they cannot pick too many holes as the treaty varies very little from the one which they themselves sponsored only six months previously.

Passing over these general arguments, then, and taking them for what they are worth, let us look at the effects of the treaty on the "special interests,"

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(1) Chicago Tribune, Nov. 26, 1935.

and try to evaluate the arguments of this latter group pro and con.

Effects on "Special Interests."

The lumber interests of the American North West were the most outspoken critics of the concessions. The competition in this industry is largely centralized in Washington, Oregon, and British Columbia. The American producers point out that the N.R.A. and wage disputes following the enactment of the Wagner Labor Disputes Act have forced wage levels in the United States to an average of 63 cents an hour, while Canadian lumbermen pay only 35 cents.

They forget, however, that the Canadian lumber industry was brought almost to its knees by the United States Revenue Act of 1932 which placed a tax of 3 dollars per 1,000 board feet on all rough and dressed lumber. This was in addition to the ordinary duty of 1 dollar per 1,000 board feet making the combined impost 4 dollars. Before the 1932 Act Canada shipped millions of dollars worth of timber across the border but since then the trade has been negligible.

The new treaty cuts the revenue tax 50 per cent, but on Douglas fir and Western hemlock, the two major items in the British Columbia export trade, there is a quota of 250,000,000 feet a year. This amount is only about five percent of the yearly consumption in the United States.

This last fact alone is conclusive evidence that the American industry will not be hit nearly so heavily as it claims. The Canadian industry, on the other hand, will be given a big impetus, not only because of the cuts in the duty on lumber but also because of the cuts in the Canadian Tariff on imported machinery, particularly logging cars, cranes, blocks and tackle and certain types of wire rope, the rate on the articles having been reduced from twenty to fifteen percent.

A specific and bitter attack on the agreement is that it brings hardship to hundreds of thousands of dairy farmers in the United States. What are the facts? The duty on cream, fresh and sour, is cut from 56.6 to 35 cents a gallon, but no more than 1,500,000 gallons can be brought in annually. If this entire amount were divided fairly, it would give each American less than a half gill of cream a year.

Prior to the imposition of the Hawley-Smoot tariff there was a large export of fresh cream from Canada to the United States, the peak of the movement being reached in 1927 when 4,495,917 gallons were shipped. The prohibitive duty imposed in 1930 put a stop to this trade.

It should be obvious that there is a potential market for Canadian cream far in excess of the quota. But even the small amount permitted under this restriction, equivalent, as it is, to 6,000,000 pounds

of butterfat will be of considerable benefit to Canada.

The most important agricultural concessions secured by Canada are those relating to live cattle. Reductions in duty ranging from 33 1/3 to 50 percent have been granted on live cattle falling within two different weight ranges, and on dairy cows. The weight ranges which have been excluded from concessions are those of which Canada is not the chief supplier.

The interests of cattle raisers in the United States are protected by provisions that the reduced duties will only apply up to a certain specified number of animals admitted in any one calendar year, that number being three quarters of one percent of the domestic consumption in the United States. The regular duty will be imposed on all cattle imported in excess of this number. Thus on the most important class, live cattle weighing 700 pounds or more each, the reduction in duty is from three to two cents per pound up to 155,799 head a year, and on calves weighing less than 175 pounds each the duty is also lowered from 2½ to 1½ cents per pound for a total of 51,933 head a year.

The Canadian producers should derive considerable satisfaction from this arrangement while

the cattle raisers in the United States have very little grounds for objection.

From the rock bound coast of Maine rises the moan that ruin is invited by lowering the duty on Irish seed potatoes from 75 cents per hundred pounds to 45 cents. Maine is the chief seed growing state in the union and as such will undoubtedly suffer some hurt, but the reduction is a boon to the potato growers of every other state, and Maine will be more than compensated by the Canadian concession that puts American food potatoes, both Irish and sweet on the free list.

Canadian seed growers particularly in the Maritimes will be benefited while those who produce for table stock should be able, without difficulty, to fight off American competition on their products.

A disappointing feature to Canadian fishermen was the failure of their negotiators to secure reductions in American duties on what constitutes the bulk of Canadian fishery products--notably cod, haddock, pickled herring and mackerel. In the case of most species on which the rates have been lowered, the imports either are small in comparison with domestic production or are supplementary to the domestic catch. Nevertheless these lowered duties should be of considerable benefit to Canadian fishermen parti-

cularly on the West Coast and along the Great Lakes while the failure to lower the duties on the products mentioned above protects the industry in New England but affords little solace to the fisher folk in the Maritimes.

The discussion to this point has been concerned with the arguments of primary producers and it is interesting to note that most of the dissenting voices are from the American side of the border. With regard to manufacturing, however, the situation is more or less reversed and the greatest outcries afe heard in Canada.

The leaders in the automobile industry in Canada state that they cannot produce profitably under the new and lower protection. Even now there is a commission investigating their claims and the testimony submitted to this date has been anything but satisfactory. It is difficult to say, then, at this time, whether or not the Canadian producers will be at a disadvantage, but since the industries in the two countries are so closely related it seems safe to assume that the industry as a whole will not be injured.

For many years there has been a feeling throughout Canada that this industry has been enjoying an unreasonable amount of tariff protection, and that as a result the Canadian people have been

paying too much for motor vehicles.

Long since out of the "luxury" category, the motor vehicle is a necessity in Canada and all countries today. It is, therefore, not only desirable but imperative that the cost of motor vehicles - as well as the fuel used to operate them - should be brought down to the lowest possible level consistent with a fair deal for manufacturers and their employees.

Following closely upon the protests of the automobile industry came the complaint of the furniture manufacturers that the thirty percent protective tariff afforded them as a result of the treaty is not sufficient and that their rate should be restored to the rate of the general tariff which is forty-five percent.

But this is one of the rates of duty against which the Canadian people have had constant and serious complaint for years. Except in very special circumstances, no industry requires tariff protection to the extent of forty-five percent. In the case of furniture it amounts virtually to an embargo.

The cost of furniture is something that affects every citizen of the country. It is the very basis of the home; and any atempt to keep the duty on furniture at a high and unreasonable figure will be resisted by the public at large.

This particular argument appears to be an attempt to hide the hold-up practices in the past rather than to secure justifiable protection.

Many people in Canada expected the price of radios to be reduced considerably as a result of the trade agreement. Actually the tariff reduction from 30 percent to 25 percent is not sufficient to make very much difference in radio prices.

But this is only part of the story; in fact, the smallest part of it. The really important consideration is that the Canadian tariff on radios has very little effect where prices are concerned. Rather, the matter of patents is the dominating one in the field. The Canadian radio manufacturers, then, will not be injured, and the cut in the duty has very little significance.

Newsprint paper and wood pulp from Canada have been placed on the free list as long as the treaty exists. A Canadian Government-prepared outline of the treaty, written for the benefit of the press said: "The sense of security from interference which the binding of these important products on the free list will give should be a stimulus to the reorganization of the whole industry on a sound footing."(1) As United States must import most of its supply of

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(1). Montreal Daily Star, Nov. 19, 1935.

these products, this item in the arrangement would seem to bring nothing but good to both countries.

Managers of publishing houses which print Canadian editions of American magazines and publishers of Canadian magazines were as one in resenting the restoration of American periodicals to the free list after five years of protection under the Bennett government.

The following excerpts from a publication by the Canadian National Newspapers and Periodicals Association, Toronto, appearing under the heading "Only Canadian Magazines are Taxed in Canada" in the February 15th issue of Maclean's Magazine explains the resentment of the Canadian publishing houses. It says in part:

"The tariff changes made in the trade agreement with the United States, affecting the publishing industry, gave United States publishers completely free entry of their finished products. It means free competition in respect to paper, ink, engravings, and other materials and equipment used in their production, which are purchased by the United States publishers in the world's largest and lowest price market. It means free entry of the creative product of the world's leading illustrators in foreign magazines, but on which Canadian publishers must pay duty, sales and excise taxes. Canadians pay duty and sales tax in the cost

of paper, ink, plates, matrices, art work, and other materials which enter into their finished periodicals. They are at a severe and grossly unfair disadvantage, in spite of which they still produce the best magazines in the world for Canadian readers, but the money they spend in unfair taxes should be spent to even further improve Canadian literature.

"Tariffs and taxes not imposed on United States publishers handicap Canada's five leading magazines by hundreds of thousands of dollars annually. It seems inconceivable that the government of Canada intends to continue to give United States competitors a preferred position, on a completely free trade basis, and leave Canadian publishers under heavy tariff and taxation handicaps. The maximum of compensatory adjustments the Canadian government may make, cannot serve to rectify the competitive condition. Canada suffers distinct handicaps, in respect to small population and great area, in the development of national periodicals. Surely, the least Canadian publishers may reasonably expect is an even chance in their own country. Publishers in New York, Buffalo, Chicago, and other United States centres now have considerable production advantages over Canadian publishers in Montreal, Toronto, Winnipeg and elsewhere.

"The tariff, sales and excise taxes which increase the cost of Canadian production are in ef-

fect a subsidy to foreign publishers. They put money into the pockets of United States publishers."(1)

The attitude of the houses which publish Canadian editions of American periodicals is easily understood when it is recalled that the majority of them were established only because of the protection offered under the old duties. Just how much weight can be given to the outcries of these two groups is a matter of conjecture, but it is safe to say that conditions are not nearly as black as they paint them.

Coming to the outcry of the American whiskey people, the fifty per cent reduction in the high duty of five dollars a gallon applies only to whiskies aged four years or more in the wood. Judging from the quality of the hard liquor sold in the United States since prohibition, whiskey from Canada cannot possibly enter into competition with any American product.

At the same time officials saw in the new duty a means of reducing the price of good whiskey materially and thereby eliminating, or at least greatly hampering the activities of bootleggers. The comment of Seton Porter, President of National Distillers Products Corporation is interesting. He said in part:

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(1). Maclean's Magazine, Feb. 15, 1936. Page 43.

"About 90% of our whiskey business in the first nine months of this year has been in whiskies of under four years of age, selling in the low price range, which will not be affected by the reduced duty, which applies only to whiskies over four years of age. When the company's large stocks of Kentucky and Pennsylvania and Maryland rye whiskies, which we have been manufacturing for the past several years, reach the bottled-in-bond age, and are made available for wider distribution than is now possible due to limited quantities, they will have nothing to fear from competition from so-called American-type whiskies manufactured in Canada only during the existence of prohibition in America, which the Canadians ceased to produce with the advent of repeal in this country.

"Furthermore, such fine domestic bonded whiskies as are now available from existing limited stocks in America will continue to find the ready market they now enjoy.

"One of the striking results of the Canadian agreement is that the duty on Scotch whisky into the United States will be materially less than the Canadian's own duty against whisky produced in the British Isles. In other words, the Canadians have a much higher tariff to protect grain growers and distillers in Canada against British competition than this treaty will now afford the American farmer and distiller."(1)

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(1). New York Herald Tribune, Nov. 20, 1935.

It would seem then that the whiskey clause means nothing but good for all concerned. Canada can dispose of large excess stocks and United States finds an effective weapon with which to battle bootleggers, while her producers are not adversely affected.

In the discussion of all of these "special interest" items an attempt has been made to break down and disclose the fallacies in the adverse arguments in themselves. With the exception of the comment on automobiles and furniture, no mention has been made of the value of these reductions on the consumers of both nations. This does not mean that this factor is held lightly. Rather, it is one of the most important considerations. In every case the benefits accruing to the consumer are most obvious and when this point is added to those already given the adverse "special interests" have very little ground on which to stand.

Before summarizing the effects of the agreement on the various geographical districts of the two countries, but supplementary to that summary, there are two other features which are very significant.

First is the effect of the most-favored-nation clause on the ports and transportation facilities. It is realized and generally admitted in Ottawa that the new Reciprocity Treaty will operate

to the detriment of Canadian ports. The disadvantage lies in the fact that the granting to the United States of most-favored-nation status will mean the end of direct shipment to Canadian ports of merchandise from non-Empire countries which hitherto had to be so consigned in order to secure the advantages of Canada's Intermediate Tariff. In 1927 Canada put an extra tariff of 10% on all imports arriving in the Dominion by way of American ports. This lead many European ships to call at Halifax and St. John, where they could avoid the Canadian super-tariff and still export goods into New England without incurring additional expense under the American tariff. It is estimated that thousands of tons of freight, such as burlap, jute, tea, mica, and skins have been diverted monthly from Boston and other New England ports through the application of the extra Canadian duty.(1) Under the new agreement the products of any non-Empire countries shipped to Canada in transit through American ports will receive as favorable treatment by the Canadian Customs as if they had come directly into a Canadian port.

As Canada extends its Intermediate Tariff to more than twenty European countries this will probably mean a considerable loss of business to the Maritime ports and a corresponding increase in trade for the

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(1). Boston Transcript. Nov. 20, 1935.

ports of New England. Also the Boston and Maine Railroad should receive considerable benefit while the Canadian railroads will be deprived of a certain amount of traffic. Montreal and Vancouver will not suffer, however, as the latter is important enough, from a trade viewpoint, to require regular routing of all large liners to it regardless of tariffs, and the former not only has the same advantage, but it also provides an entry nearly one thousand miles inland without extra handling. The only redeeming feature as far as St. John and Halifax are concerned is that the agreement does not affect goods entering the Dominion under the British preference, but the only solution for them seems to be that set forth by the Halifax Herald when it says, "They must redouble their efforts not only to hold the trade they now enjoy, but to increase that trade, as it has been increasing during the past few years."(1)

The second feature worthy of attention is the new Canadian regulation on tourists.

For many years the United States has allowed its residents to bring back from abroad free of customs duty $100 worth of goods. Thus a citizen of the United States could go to Canada and purchase articles which were particular products of the Dominion. Furs, woollens,

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(1). Halifax Herald, Nov. 20, 1935.

blankets, home-made rugs of various kinds and many other commodities thus went from Canada to the United States.

But Canadians visiting the United States were denied this opportunity. "This one-sided application" of the exemption policy has been subject to persistent attack, according to a statement issued with copies of the treaty in Canada. The statement reads: "These many years the United States has allowed its residents returning from abroad to bring back free of customs duty purchases up to the value of $100. The value of this liberal policy to the Canadian Tourist business, and in particular to the retail merchants in our Border Cities, has long been appreciated. The Canadian Government has decided to invite Parliament to apply a similar policy modified to meet the special characteristics of our relationship to the United States.

"This marks an important departure, which, when worked out under suitable regulations respecting frequency of entry and duration of visit, will have the effect of eliminating a considerable volume of petty smuggling, simplifying customs administration at border points and facilitating the tourist movement back and forth across the border.

"The reciprocal conditions attached to this concession will serve to ensure the maintenance, so far as Canada is concerned, of the real advantages, which traders' and tourists business has enjoyed from

the operation of the United States $100 exemption policy, which, because of its one-sided application has been subject to persistent attack."(1)

The "bonafide" tourist who will have the privilege of bringing back $100 of goods duty free, from the States when the Customs Act is changed is not to be the one who takes a little trip across the border to make some purchases and comes right back with a bag full. Particularly, it is not to be the resident of Border points, crossing back and forth daily. Instead, in the intention of the Government, the tourist must have been away at least 10 days to have the free duty privilege and this excursion must not be more than twice a year.(2)

Certain objections, no doubt, will be raised against this new regulation, but by and large throughout the Dominion the regulation will be well received as calculated to stimulate tourist travel and to make for better relations as between the two countries.

Effects on Localities

Coming now to the summary of the effects of the agreement on the various geographical districts of the two nations we find the Maritime Provinces rather hard hit as far as the ports are concerned, breaking about even on the potato question, and receiving un-

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(1). Montreal Daily Star, Nov. 18, 1935.
(2). Montreal Daily Star, Nov. 19, 1935.

questionable benefits in lumber, fish and dairy exports and machinery imports. Although some interests in the Maritimes were disappointed at not receiving as much as they had hoped, they cannot deny that the Provinces, on the whole, have benefited.

In New England, the port and transportation facilities should benefit considerably, the fisheries are protected, conditions in the textile and other manufacturing industries are improved, and the tourist trade has been given a new lease on life. It is interesting to note that the first excursion train from the Maritimes to Boston since the treaty went into effect was the largest in ten years. The only adverse reaction in this district will be felt in the potato and dairy industries, and, as pointed out above, this will be very slight.

The manufacturers of Ontario and Quebec will experience more American competition in their products, but will be able to secure heavy machinery at much lower rates. The lumbering, agricultural, mining and fishing interests of these provinces, moreover, will receive much better treatment. On the whole, then, these sections stand to gain considerably under the new arrangement.

While the automotive, furniture, and other manufacturers of Mid-Western United States express optimism over the prospects of increased business, the agricultural and lumbering industries feel that they

have been discriminated against. There is the possibility, however, that some branches of the lumbering industry may be aided. If the treaty stimulates the sale of automobiles, the mills which supply wood parts for the automobiles would enjoy a greater demand for their products.

Moreover, the new tourist arrangement should prove a wonderful boon to the border cities in this district.

The treaty reductions on calves and cattle, horses, fodders and white fish are all to the good as far as the Canadian Prairies are concerned, while their effects on the American West are, as explained in a previous section, comparatively nil, in fact, they are more than offset by the lowered rates on manufactured products from this section.

British Columbia receives greater immediate benefits than any other Canadian section. With timber and lumber duties split in half (and reductions split in half) and reductions made on salmon, halibut, canned clams and crude sperm oil, this province is in an enviable position. The Victoria Times points out that the lumber concession alone means immediate employment for another 2,000 men in provincial forests, and for each 100 of these men at least 500 others will be variously employed. Happy days, then, are in store

for at least 12,000 more British Columbians in their rejuvenated lumber industry.(1)

In Washington and Oregon this same concession will have the opposite result, but as explained in the previous discussion on lumber, the effects will not be nearly so noticable, in fact they should be completely offset by the benefits resulting from the new tourist regulation.

The only remaining sections directly affected by the treaty are the Corn Belt and the South. In the former the range cattle interests do not like the provision letting in a limited number of Canadian feeder cattle, while the corn grower is inclined to think it may be to his advantage.

It is pointed out, however, that the quota limit is so small compared with the number of such cattle handled in the Corn Belt that nobody is likely to note the difference. The provisions relative to milk cattle and cream displeases the dairymen, but dairying, while it is an extensive side line in these States, is a specialty with comparatively few.

Impartial opinion is inclined to the belief that, as a whole, the effect in the Corn Belt will be about a stand-off and that it will be able to note neither much advantage nor disadvantage.

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(1). Victoria Times, Nov. 20, 1935.

Southern producers, particularly Florida fruit growers who had criticized the Cuban agreement, which lowered duties on certain seasonal fruits, felt that the Canadian agreement made up to them in a small measure the damage which they claimed the earlier pact caused. The admission of oranges free of duty to Canada in January, February, March and April with a 50 per cent reduction in Canadian duty on vegetables effective during the whole year will open the Eastern Canadian market to Florida growers, just as the Cuban agreement opened the Eastern American market to Cuban growers.

Since the population in the Eastern United States greatly exceeds that of Eastern Canada, the fruit men said that they are not fully compensated, but that they were grateful for what they did receive.

As in the discussion of the effects on "special interests" the concessions affecting various localities have been analyzed and compared, and found most beneficial in themselves to both countries. No mention has been made of the untold advantages they bring to the consumers in the two nations. Of one thing let us all be sure: those policies are sound. and right which consider first, not the primary producers or the manufacturer, but the consumer. Why? Because all are consumers. In the case of this treaty

the advantages to consumers in all localities in both countries cannot be overemphasized. Every reduced rate brings increased purchasing power to thousands of consumers everywhere.

Conclusions.

All in all, then, it is safe to conclude that the Reciprocity Act of 1935 was a victory of the general interests of the people of Canada and the United States over special interests. It will mean, or should mean, lowered costs of living in both countries; the lowered duties on foodstuffs, lumber and other materials operating to this end in the United States, and the reductions on manufactured articles having the same effect in Canada. Further, the agreement, in that it makes possible the profitable sale of much of the surplus production of both countries, will result in the re-employment of a large number of wage-earners now idle.

Despite these improvements, however, the treaty is far from perfect, for when all is said and done, it merely corrects the stupidities of the Hawley-Smoot bill, leaving the provisions of the tariff of 1927 virtually untouched. But while many other parts of the world are slipping in the direction of economic suicide, the arrangement marks an outstanding step in the direction of economic sanity. It seeks to stimulate sound and healthy trade relationships and thereby, to restore employment to the unem-

ployed and a wholesome prosperity to the peoples of the two nations. It is a distinct set-back to exaggerated economic nationalism in both countries, and finally, it serves as an example to the rest of the world of what could be done if trade problems were approached in an enlightened spirit, and of what must be done in order to establish a solid foundation upon which to rebuild a suitable structure of world peace.

CHAPTER 5

CONCLUSIONS

In closing it is interesting to note the manner in which the trade history of the United States and Canada bears out to the letter the advice of leading economists who are unanimous in advocating freer trade between countries. Throughout the discussion on the history of the trade relationships between these countries the increased trade resulting from free policies was pointed out, and the loss of trade and good will following the imposition of protectionist barriers was stressed. The immediate increases in trade following the reciprocal agreements signed recently between the United States and Cuba, Brazil, Colombia, Haiti, Sweden and Belgium further substantiate their views. In the Cuban case for instance, the American export trade has increased threefold since the treaty went into effect. Moreover, figures of the Federal Reserve Board show that in every single year in which American imports have increased, factory employment has increased; and that in every year in which imports have decreased factory employment has decreased. Also that the rise and fall of farm employment and farm wages shows a striking correlation with imports.

There is nothing accidental or esoteric about this. Factory employment and farm employment naturally rise when production activity is at a high level, and this is most easily achieved when otherwise valueless surpluses can be sold abroad at a profit. But what determines the ability of a country to sell abroad? Various circumstances; but essentially the purchasing power of foreign buyers. This can be augmented either by lending money to foreigners, as did the United States in the decade of the twenties, or by increasing purchases of their products - a substantial part of which should not, of course, compete with legitimate domestic goods.

Trade is not a gift; it is, rather, an exchange of goods and services, and countries are traders bent on exchanging these goods and services at a profit.

Free trade is, of course, the ideal. But it is impractical in days when some nations subsidized their exports and half-starve their employees so as to undercut the industries of other countries till, these being skilled, the invaders can demand their own prices. But the nearer the nations of the world can approach the ideal, without sacrificing legitimate industries, the better will be world trade and international goodwill.

Restricted trade relations between countries throughout the world are a manifestation of the same spirit which led to war. The League of Nations is now engaged in an admirable and noteworthy effort to stop a war of aggression. But even more important than organization to prevent war are the friendliness and understanding between countries which make war impossible. As trade occupies so much of the time and thought of peoples, happy and sane trade relations between countries mean much more than the dollars and cents involved, and should be given much more consideration by all nations in the world today.

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(Note: as the chief feature of this thesis; namely, the 1935 Reciprocity Act, did not go into effect until January 1, 1936, there has been very little other than magazine and newspaper comment written concerning it. Naturally a great many issues of innumerable newspapers and magazines have been read, in a more or less degree, in search of pertinent information; but it is reasonable and convenient to list here only those to which direct reference was made in compiling the thesis.)

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